

CONFORMED COPY

LOAN NUMBER 7547-BR

Loan Agreement

(Second Minas Gerais Development Partnership Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

STATE OF MINAS GERAIS

Dated August 13, 2008

LOAN AGREEMENT

Agreement dated August 13, 2008, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and STATE OF MINAS GERAIS (“Borrower”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — LOAN

- 2.01 The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of nine hundred seventy six million dollars (\$976,000,000), 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: (a) in respect of Part 1 of the Project as reimbursement for part of the Eligible Expenditures incurred by the Borrower under the Eligible Expenditure Programs; (b) in respect of Part 2 of the Project to finance the Eligible Expenditures incurred by the Borrower; and (c) in respect of the Front-End Fee referred to in Section 2.03 of this Agreement and any premium in respect of an Interest Rate Cap of Interest Rate Collar payable by the Borrower in accordance with Section 4.05(c) of the General Conditions. 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 April 15 and October 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 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 carry out: (a) Part 1 and Part 2(a)(i), 2(b) through 2(g) of the Project through SEPLAG; and (b) Part 2(a)(ii) of the Project through *Fundação João Pinheiro*; 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 — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The audit reports issued by TCE-MG on the 2005 and 2006 budgets of the Borrower and the report of annual financial statements issued by the Borrower's Governor for the Borrower's budget 2007 (*Relatório de Prestação de Contas*) have been presented to the Bank and have been found by the Bank to be satisfactory in form and substance; and
 - (b) The Project Operational Manual in form and substance satisfactory to the Bank has been adopted by the Borrower through a Decree.
- 4.02. The Additional Legal Matter consists of the following, namely that that the Loan has been registered with the Guarantor's Central Bank.
- 4.03 Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on November 1, 2009.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. Except as provided in Section 2.02 of this Agreement, the Borrower's Representative is its Governor.
- 5.02. The Borrower's Address is:
Secretaria de Estado de Planejamento e Gestão
Rua Tomaz Gonzaga, 686, 5º andar, Lourdes
30180-140 Belo Horizonte, MG
Brazil
- Facsimile:
(55-31)3290-8259

With copy to:

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

Facsimile:
(55-61) 32 25 40 22

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

Facsimile:
(55-31)3217-6221

5.03. The Bank's Address is:

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

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

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

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By/s/ John Briscoe

Authorized Representative

STATE OF MINAS GERAIS

By/s/ Aécio Neves da Cunha

Authorized Representative

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 parts:

Part 1. Implementation of the Eligible Expenditure Programs

Support the implementation of the Eligible Expenditure Programs.

Part 2. Technical Assistance

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

- (a) improve procurement systems, enhance electronic government, and improve the Borrower's monitoring and evaluation methodologies and systems, including: (i) quality assurance studies, impact evaluation and assessment of result chains; and (ii) household survey (Public Sector Management);
- (b) support studies for further development of the Borrower's bovine tracking model identify and develop a strategy to accelerate the technological innovation process in the Borrower's territory, develop mechanisms to foster university-enterprise partnerships, develop excellence and innovation centers, identify and develop a model for regulating PPP contracts tailored to the specific situation of the Borrower, define a strategic plan for export promotion, and prepare an action plan to enhance one-stop shops for small and medium enterprises through *Minas Facil* (Private Sector Development);
- (c) establish a hospital management electronic system for total informatization of hospitals in the Borrower's territory and implement a family health electronic guide (Health);
- (d) develop an education model for small schools and multi-grade classes for early literacy, evaluate the teaching body to design a professional development policy and improve the model of vocational education in the Borrower's territory (Education);
- (e) design the Borrower's action plan for improved road safety and road accident monitoring system, structure a management model for PPPs in the Borrower's road sector, develop a pavement and bridge management system and strengthen the transport planning capacity of SETOP (Transport);

- (f) support the development of ZEE in the Borrower's territory, enhance processes for environmental compliance, improve monitoring and control systems and support a distance-learning system in environmental management for civil servants and other partners; and
- (g) additional studies and/or activities to support the implementation of the Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall: (a) carry out Part 1 and Part 2(a)(i),(b),(c),(d),(e),(f) and (g) of the Project through SEPLAG; and (b) cause Part 2(a)(ii) of the Project to be carried out by *Fundação João Pinheiro*; 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. To facilitate the carrying out of Part 2(a)(ii) of the Project, the Borrower shall, not later than four months after the Effective Date, enter into, and thereafter maintain and comply with, an agreement (the Technical Cooperation Agreement) with *Fundação João Pinheiro* and shall make part of the proceeds of the Loan available to *Fundação João Pinheiro* under terms and conditions included in the Technical Cooperation Agreement as approved by the Bank and in accordance with the draft Technical Cooperation Agreement included in the Project Operational Manual.
3. The Borrower shall exercise its rights and carry out its obligations under the Technical Cooperation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of Part 2(a)(ii) of the Project. Except as the Bank shall otherwise agree, the Borrower shall not assign, substantially amend, arrogate, waive or fail to comply with the Technical Cooperation Agreement or any of its provisions.
4. 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.
5. 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.
6. The Borrower shall furnish to the Bank on or about three months, six months, twelve months, eighteen months, and twenty four 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.
7. 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 Part 2 of the Project have been carried out in accordance with the Procurement Plan.

8. 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.

9. 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.

10. If, at any time, the Bank determines that any portion of the financing under the Project was used for items improperly procured in violation of Section III to this Schedule, was not used for Eligible Expenditures or, in case of the Eligible Expenditure Programs of Part 1 of the Project, was not supported by evidence of actual spending by the Borrower under said Eligible Expenditure Programs and/or by evidence of satisfaction of other criteria set forth in this Agreement or in the Project Operational Manual, the Borrower shall refund any such portion to the Bank as the Bank shall specify by notice to the Borrower.

B. Anti-Corruption

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

C. Safeguards

1. Environmental Assessment and Physical Cultural Resources

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

2. Resettlement

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

3. Indigenous Peoples

The Borrower shall, when applicable in accordance with the provisions of the Indigenous Peoples' Framework: (a) furnish to the Bank for its approval an Indigenous Peoples' Plan

for each Subproject; and (b) carry out the requirements specified by such Indigenous Peoples' Plan in accordance with its terms.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall 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 December 31, 2011.

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 quarter, interim unaudited 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.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works (including non-consultants' services) required for the Project and to be financed under Part 2 of the Project or reimbursed under Part 1 of the Project out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. Contracts under the Project awarded in accordance with Section II of the Procurement Guidelines or the Consultant Guidelines may draw upon diverse sources of funding for their financing, necessarily including Loan proceeds.
4. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works (including non-consultants' services) shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works (including non-consultants' services). The Procurement Plan and the Project Operational Manual shall specify the circumstances under which such methods may be used.

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

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
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) Selection Based on Consultants' Qualifications
(b) Least-Cost Selection
(c) Quality-Based Selection
(d) Selection under a Fixed Budget
(e) Procedures set forth in Paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(f) Single Source Selection
(g) Sole Source Procedures for the Selection of Individual Consultants
(h) Selection of UN Agencies as Consultants as set forth in Paragraph 3.15 of the Consultant Guidelines

D. Review by the Bank of Procurement Decisions

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

Section IV. Withdrawal of Loan Proceeds

A. General

1. 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 Part 1 of the Project	955,060,000	Up to 35% of amounts spent and reported under the EEP Spending Reports
(2) Goods, non-consultants' services, operating costs, and consultants' services for Part 2 of the Project	18,500,000	100%

(3) Front-end Fee	2,440,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07(c) of this Agreement
TOTAL AMOUNT	976,000,000	

For the purposes of this table:

(a) the term “non-consultants’ services” means: (i) software licensing and incidental services; (ii) the reasonable cost of training materials and rental of training facilities and equipment; tuition fees, travel and per-diem of trainers and trainees; and any other expenses related to training (including study tours and workshops) to be carried out under the Project; (iii) data collection for quality surveys; and

(b) the term “operating costs” means recurrent costs of the Project, associated with Part 2 of the Project by the Borrower and *Fundação João Pinheiro*, including: (i) operation and maintenance of vehicle, repairs, fuel and spare parts; (ii) equipment and computer maintenance, including hardware and software; (iii) communication costs and shipment costs (whenever these costs are not included in the cost of goods); (iv) office supplies and equipment; (v) rent for office facilities; (vi) utilities; (vii) travel and per diem costs for technical staff carrying out training, supervisory and quality control activities; (viii) expenses related to audits other than consultants’ services; (ix) expenses related to the hiring of data collectors by *Fundação João Pinheiro* not covered under paragraph (a) above; and (x) salaries of the Borrower’s staff and *Fundação João Pinheiro*’s staff employed for purposes of working in Project coordination and management activities.

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 \$195,000,000 equivalent may be made for payments made twelve months prior to such date for Eligible Expenditure Programs under Category (1) for the first disbursement as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule; or

(b) for payments made under Category (1) unless: (i) the relevant EEP Spending Report, as referred to in Section I.A.6 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 referred to in Schedule 5 to this Agreement) have been met by the Borrower in form and substance satisfactory to the Bank.

2. If the Bank has:

(a) received only partial evidence of compliance under the Disbursement-Linked Indicators referred to in Schedule 5 to this Agreement in respect to the third and the fifth disbursements under Category (1) (as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule), the Bank may, at its option, authorize that the unwithdrawn portion of the Loan resulting from this lack of evidence be carried forward to the subsequent withdrawals, provided that, if this occurs, the amount to be disbursed by the Bank, in the aggregate under all subsequent withdrawals, shall not exceed 35% of the sum of amounts referred in the last three columns of the table in Schedule 4 to this Agreement for the years up to and including the one for which the withdrawal is made;

(b) not approved a full withdrawal by the Borrower of the Loan proceeds under Category 1, the Bank may, by notice to the Borrower and the Guarantor, cancel the corresponding amount of the Loan at the time of the sixth disbursement (as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule); and

(c) not approved a full withdrawal by the Borrower of the Loan proceeds under Category 2, the Bank may cancel the corresponding amount of the Loan or reallocate said amount under Category 1; all by notice to the Borrower and the Guarantor.

3. The Closing Date is June 30, 2011. The Bank will 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.8 above; all under terms of reference and with qualifications and experience satisfactory to the Bank and in accordance, if applicable, with the provisions of Section III above.

SCHEDULE 3

Amortization Schedule

1. 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 April 15 and October 15 Beginning October 15, 2014 through April 15, 2037	2.13%
On October 15, 2037	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	Project Development Objective	Budget Item	Borrower's Budget Line Numbers (as set forth in the Borrower's Budget Law)	Expenditure Type	Amount to be spent by the Borrower in 2008 in R\$	Amount to be spent by the Borrower in 2009 in R\$	Amount to be spent by the Borrower in 2010 in R\$
Public Sector	Fiscal Quality	Tax Efficiency and Simplification	04.129.017	Goods/ works/ recurrent costs	12,690,000	13,985,480	14,186,850
Public Sector	Fiscal Quality	Modernization of Fiscal Management	04.129.029	Goods/ works/ recurrent costs	3,010,000	3,232,858	3,328,111
Public Sector	Quality and Innovation in Public Management	Professionalization of Public Managers	04.122.002	Goods/ works/ recurrent costs	4,788,000	4,366,400	4,754,876
Public Sector	Quality and Innovation in Public Management	Sectoral Public Reform Agenda	04.122.008	Goods/ works/ recurrent costs	3,770,000	3,770,551	3,770,551
Private Sector Development	Investment and Aggregated Value of Production	Simplification of doing business	04.122.013	Goods/ works/ recurrent costs	11,220,000	12,005,663	13,062,421
Private Sector Development	Investment and Aggregated Value of Production	PPPs ¹	04.130.032	Goods/ Works/ recurrent costs	2,290,000	3,269,117	3,269,117
Private Sector Development	Innovation, Technology and Quality	Network for Innovation Technology	19.571.043 19.661.043.	Goods/ works/ recurrent costs	22,998,000	31,114,000	29,772,000
Private Sector Development	Innovation, Technology and Quality	Certification Systems	20.122.050 20.126.050 20.128.050 20.304.050 20.602.050 20.603.050. 20.604.050 20.665.050 20.722.050	Goods/ works/ recurrent costs	12,090,595	15,978,320	14,956,169
Health	Healthy Life	Regionalization of Healthcare	10.302.044	Goods/ works/	178,000,000	61,273,477	164,822,433

¹ No PPP will be part of the Project.

		Services		recurrent costs			
Health	Healthy Life	Home Healthcare	10.301.049	Goods/ works/ recurrent costs	136,000,000	294,655,000	490,402,500
Health	Healthy Life	Live Life	10.244.054 10.302.054	Goods/ works/ recurrent costs	35,700,000	88,800,000	106,750,000
Education	Quality Education	Management of Elementary Education	12.361.030 12.362.030	Goods/ works/ recurrent costs	95,299,862	99,243,908	101,957,036
Education	Youth Protagonism	Secondary Vocational Education	12.363.018	Goods/ works/ recurrent costs	20,680,000	21,714,000	22,799,853
Education	Youth Protagonism	Improvement in Quality and Efficiency of Secondary Education	12.362.037	Goods/ works/ recurrent costs	31,648,000	36,124,283	38,349,614
Education	Personnel – State Secretariat of Education	Administrative Support to Elementary Education	12.361.235	Recurrent costs	492,063,941	501,068,711	510,238,269
Education	Personnel – State Secretariat of Education	Administrative Support to Secondary Education	12.362.180	Recurrent costs	16,558,167	16,861,181	17,169,741
Education	Personnel – State Secretariat of Education	Development of Elementary Education	12.361.235	Recurrent costs	1,869,713,541	1,903,929,299	1938,771,205
Infra-structure Transport	Logistics and Development Integration	<i>ProMG-Pleno</i> ² -Highway Maintenance and Recovery	26.782.038	Goods/ works/ services	172,656,674	220,231,461	237,500,244
Infra-structure Transport	Network of Cities and Services	<i>Pro-Acesso</i> ³	26.782.035	Goods/ works/ services	365,823,657	387,051,841	

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² Under *ProMG-Pleno*, the eligibility criteria for inclusion under the Project are defined in the Project Operational Manual.

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

Disbursement-Linked Indicators

Quality and Innovation in Public Sector Management
1. Among the following six Borrower's Line Secretariats (SEF, SEPLAG, SEMAD, SECTES, SEE and SES), 4 in 2007, 5 in 2008, 5 in 2009 and 6 in 2010 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.
2. The number of certified job categories under the Borrower's public service system has reached at least: 2 in 2007, 4 in 2008, 6 in 2009 and 8 in 2010 as documented through a report prepared by SEPLAG.
Fiscal Quality
3. 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.
4. The resources allocated by the Borrower to all the Strategic Projects divided by the Borrower's total annual budget expenditures multiplied by 100 has reached the following percentages: in 2007: 8.3%; in 2008: 8.5%; in 2009: 9%; and in 2010: 9.5% as documented through a report prepared by SEPLAG.
5. 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 with SIAD as evidenced in a report prepared by SEPLAG; and in 2010, the Borrower has an acceptable and operational system integrated with SIAD for the management of civil construction contracts as evidenced in a report prepared by SEPLAG.
Quality and Innovation in Public Management – State for Results
6. 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 first version of the three impact evaluation reports, in form and substance satisfactory to the Bank.
Investment and Value-Added of Production – Fiscal Quality
7. 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 10 in 2010 as documented by SEPLAG. In 2010, the number of Registration Days will be accounted for in all the operational physical units for <i>Minas Facil</i> existing in the Borrower's territory.
8. 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 27 in 2010 as documented and evidenced by SEPLAG.
9. The Borrower has increased the number of contracted PPPs and/or published proposals for PPPs

for the provision of public interest services from one executed contract in 2007 to 2 published proposals in 2008, 2 executed contracts in 2009 and 3 executed contracts in 2010, as documented and evidenced by SEDE.
Innovation, Technology and Quality – Monitoring and Evaluation
10. 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.
Healthy Life – Public Management Modernization
11. 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 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.
Healthy Life – Quality of the Expenditure
12. A standardized costing system for 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 system operational in at least two hospitals in 2010 as documented and evidenced by SES.
Healthy Life – Monitoring and Evaluation
13. An impact evaluation of home healthcare in the Borrower’s territory has been carried out 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.
Education Quality
14. The percentage of 8-year-old students in 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, between 80 and 85% in 2009 and between 85 and 100% in 2010 as evidenced by SEE and documented through the exams annually carried out by SEE.
15. 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 and from other sources than state; and in 2010, the cost indicators are posted on SEE’s website; all as evidenced and documented by SEE.
Youth Protagonism
16. 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, 70% of the Borrower’s schools in 2009 including PROALFA 2009 results and PROEB 2008 results and 80% of the Borrower’s schools in 2010 including PROALFA 2010 results and PROEB 2009 results; all as evidenced and documented by SEE.
17. 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; 25,000 in 2009 and 30,000 in

2010.
Logistics and Development Integration
18. 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 42% in 2010 as evidenced by DER-MG and documented through published contracts.
19. 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; in 2009, the bidding documents for three highways in the Borrower's territory have been published; and in 2010, the bidding documents for five additional highways in the Borrower's territory have been published as evidenced and documented by SETOP.
20. 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.
Network of Cities and Services
21. 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.
Environmental and Social Quality
22. The average time for concession of environmental licenses (<i>licença de instalação</i> and <i>licença de operação</i> for <i>classes</i> 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.
23. 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.
24. 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. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “DER-MG” means *Departamento de Estradas de Rodagem do Estado de Minas Gerais*, the Borrower’s department for highways, supervised by SETOP.
6. “Disbursement-Linked Indicators” means a set of indicators as specified in Schedule 5 to this Agreement.
7. “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.
8. “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 Part 1 of the Project.
9. 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 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.
10. “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.

11. “*Fundação João Pinheiro*” means 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.
12. “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.
13. “Indigenous Peoples’ Framework” means the document (published and available to the public on the website www.planejamento.mg.gov.br), dated January 31, 2008, 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.
14. “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 the Project, as said plan may be amended from time to time with the Bank’s prior approval.
15. “Line Secretariats” mean the Borrower’s state secretariat of finance and the Borrower’s secretariats involved in the Project Sectors.
16. “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.
17. “*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.
18. “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.
19. “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.
20. “PAF” means *Programa de Ajuste Fiscal*, the Borrower’s fiscal adjustment program as created and operating under the Guarantor’s Law No. 9.496, dated September 11, 1997.
21. “PPP” means public-private partnerships in the Borrower’s territory as operating under the Guarantor’s Law N0. 11079/04 and the Borrower’s Laws No. 14869/03 and No. 14869/03.

22. “*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.
23. PROALFA means Programa de Avaliação do Ciclo de Alfabetização, the Borrower’s program to evaluate literacy in the Borrower’s public schools, a test to determine the reading proficiency of children in grade 3, as carried out by SEE.
24. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
25. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 21, 2008 and included in the Project Operational Manual and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
26. “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 Part 2 of the Project.
27. PROEB means *Programa de Avaliação da Rede Pública de Educação Básica*, the Guarantor’s program to evaluate the public education system for the fourth, eighth and eleventh grades.
28. “Project Operational Manual” means the operational manual for the Project found satisfactory to the Bank, to be adopted by the Borrower through a Decree and which shall contain, *inter alia*: (i) the terms of reference, functions and responsibilities for the personnel of the Borrower responsible for Project coordination, monitoring and evaluation; (ii) the criteria, detailed rules and procedures for the EEPs; (iii) the procedures for procurement of goods, works, non-consultants’ services, consultants’ services and operational costs for Parts 1 and 2 of the Project (including the applicable threshold values for prior reviews), as well as for financial management and audits (i.e. financial audit and procurement) 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 Technical Cooperation 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; and (viii) the Environmental Management Framework, the Resettlement Framework and the Indigenous Peoples’ Framework.
29. “Project Sectors” means the five sectors in which EEP take place, namely Public Sector Management, Private Sector Development, Health, Education and Transport.
30. “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.

31. “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.
32. “R\$” means Brazilian *reais*, the Guarantor’s currency.
33. “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.
34. “Resettlement Framework” means the document (published and available to the public on the website www.planejamento.mg.gov.br), dated January 31, 2008 and 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.
35. “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.
36. “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.
37. “SECTES” means *Secretaria de Estado de Ciência Tecnologia e Ensino Superior*, the Borrower’s state secretariat for science, technology and higher education.
38. “SEDE” means *Secretaria de Estado de Desenvolvimento Econômico*, the Borrower’s state secretariat for economic development.
39. “SEE” means *Secretaria de Estado de Educação*, the Borrower’s state secretariat for education.
40. “SEF” means *Secretaria de Estado de Fazenda*, the Borrower’s state secretariat for finance.
41. “SEMAD” means *Secretaria de Estado de Meio Ambiente e Desenvolvimento Sustentável*, the Borrower’s state secretariat for environment and sustainable development.
42. “SEPLAG” means *Secretaria de Estado de Planejamento e Gestão*, the Borrower’s state secretariat for planning and management.

43. “SES” means *Secretaria de Estado de Saúde*, the Borrower’s state secretariat for health.
44. “SETOP” means *Secretaria de Estado de Transportes e Obras Públicas*, the Borrower’s state secretariat for transport and public works.
45. “SIAD” means Sistema Integrado de Administração de Bens e Serviços, the Borrower’s integrated system for good and services management, as established and operating under the Borrower’s Decree No. 43.699 dated December 11, 2003.
46. “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 under the Project and providing for mitigation measures and monitoring procedures for environmental purposes, including chance finding for cultural property, as said assessment may be amended from time to time with the Bank’s prior approval.
47. “STN” means *Secretaria do Tesouro Nacional*, the Guarantor’s secretariat of the national treasury.
48. “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.
49. “Subproject” means each specific set of activities to be undertaken as part of the Project and covered by the Eligible Expenditure Programs.
50. “TCE-MG” means *Tribunal de Contas do Estado de Minas Gerais*, the Borrower’s auditing chamber, established and operating under the Borrower’s Constitution dated September 21, 1989.
51. “Technical Cooperation Agreement” means an agreement (*Convênio de Cooperação Técnica*) whose draft is included in the Project Operational Manual and to be executed between *Fundação João Pinheiro* and the Borrower as referred to under Section I.A.2 and 3 of Schedule 2 to this Agreement, pursuant to which the Borrower shall make the parts of the proceeds of the Loan available to *Fundação João Pinheiro* for the implementation of Part 2(a)(ii) of the Project.
52. “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.

Section II. Modifications to the General Conditions.

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

“The Borrower shall use the proceeds of the Loan or cause said proceeds to be used exclusively to finance (and/or as reimbursement for) expenditures which, except as otherwise provided in the Loan Agreement, satisfy the following requirements:

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

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

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

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

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