

NEGOTIATED VERSION
Maria Pia Cravero
November 22, 2017

LOAN NUMBER 8818-BR

Loan Agreement

(Brazil-Salvador Social Multi-Sector Service Delivery Project)
(Projeto Salvador Social)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

MUNICIPALITY OF SALVADOR

LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and MUNICIPALITY OF SALVADOR (“Borrower”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form 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 the amount of one hundred twenty five million Dollars, (\$125,000,000), as such amount may be converted from time to time through a Currency Conversion (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.06. The Payment Dates are May 15 and November 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 3 to this Agreement.
- 2.08. (a) If on any given day, the Total Exposure exceeds the Standard Exposure Limit (as said terms are defined in sub-paragraphs (b)(ii) and (b)(iii) of this Section), the Borrower shall pay to the Bank a surcharge at the rate of one half of one percent (0.5%) per annum of the Allocated Excess Exposure Amount (as defined in sub-paragraph (b)(i) of this Section) for each said day (“Exposure Surcharge”). The

Exposure Surcharge (if any) shall be payable semi-annually in arrears on each Payment Date.

- (b) For purposes of this Section the following terms have the meanings set forth below:
- (i) “Allocated Excess Exposure Amount” means for each day during which the Total Exposure exceeds the Standard Exposure Limit, the product of: (A) the total amount of said excess; and (B) the ratio of all (or, if the Bank so determines), a portion of the Loan to the aggregate amount of all (or the equivalent portions) of the loans made by the Bank to the Borrower, the Guarantor and to other borrowers guaranteed by the Guarantor that are also subject to an exposure surcharge, as said excess and ratio are reasonably determined from time to time by the Bank.
 - (ii) “Standard Exposure Limit” means the standard limit on the Bank’s financial exposure to the Guarantor which, if exceeded, would subject the Loan to the Exposure Surcharge, as determined from time to time by the Bank.
 - (iii) “Total Exposure” means for any given day, the Bank’s total financial exposure to the Guarantor, as reasonably determined by the Bank

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through Casa Civil in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following, namely, that the Borrower, through Casa Civil, has adopted the Project Operational Manual in a manner and with contents acceptable to the Bank.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower’s Representative is its Mayor.
- 5.02. For purposes of Section 10.01 of the General Conditions:
- (a) the Borrower’s address is:
Praça Thomé de Souza, s/n, Palácio Thomé de Souza – Centro
Salvador – BA CEP 40.020-010

Brazil; and

(b) the Borrower's Electronic Address is:

Facsimile:

55 71 3202-6102

E-mail:

prefeito@salvador.ba.gov.br

5.03. For purposes of Section 10.01 of the General Conditions:

(a) the Bank's address is:

International Bank for Reconstruction and Development

1818 H Street, N.W.

Washington, D.C. 20433

United States of America; and

(b) the Bank's Electronic Address is:

Telex:

248423(MCI) or

64145(MCI)

Facsimile:

1-202-477-6391

E-mail:

mraiser@worldbank.org

AGREED as of the Signature Date.

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By

Authorized Representative

Name: _____

Title: _____

Date: _____

MUNICIPALITY OF SALVADOR

By

Authorized Representative

Name: _____

Title: _____

Date: _____

SCHEDULE 1

Project Description

The objective of the Project is to improve social service delivery in the Borrower's territory, emphasizing improvements in health care system efficiency, education quality and social assistance effectiveness.

The Project, consists of the following parts:

Part 1. Support for Strategic Actions to Improve Social Service Delivery

Implementation of Eligible Expenditure Programs to support:

1. in the health sector: (i) pertinent access to Primary Care, Secondary Care and Tertiary Care; and (ii) the use of technologies to improve efficiency and quality of care management;
2. in the education sector: (i) measures that enhance quality of Early Childhood Education and Fundamental Education; and (ii) improved learning outcomes through the provision of quality education hinges on developing quality standards, monitoring and evaluation systems, and an accountability system that ensure feedback is received by service providers; and
3. regarding social assistance: (i) the strengthening of the basic social assistance network; (ii) the improvement of *Cadastral Único's* data quality; and (iii) the enhancement of SEMPS' organizational capacity.

Part 2. Technical Assistance

Strengthening the capacity of the municipal secretariats in charge of health, education and social assistance, as well as Casa Civil's capacity to coordinate and lead the Borrower's administration's cross-cutting policy agenda and support the achievement of the Project objective by including actions and measures that are complementary to DLIs.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

The Borrower, through Casa Civil, shall maintain a Project Management Unit (the “PMU”) at all times during the implementation of the Project, with sufficient resources, competent staff in adequate numbers and responsibilities, all acceptable to the Bank and as set forth in the Project Operational Manual.

B. Project Operational Manual.

1. The Borrower, through Casa Civil, shall: (i) adopt and carry out the Project in accordance with the Project Operational Manual; and (ii) not amend, suspend, abrogate, repeal or waive any provision of said Project Operational Manual without the prior written approval of the Bank.
2. In case of any conflict between the terms of the Project Operational Manual and this Agreement, the terms of this Agreement shall prevail.

C. Safeguards.

The Borrower, through Casa Civil, shall implement the Project in accordance with the provisions of the ESMF and the RPF.

Section II. Project Monitoring Reporting and Evaluation

The Borrower shall furnish to the Bank each Project Report not later than sixty (60) days after the end of each calendar semester, covering the calendar semester.

Section III. Withdrawal of Loan Proceeds

1. Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to: (a) finance Eligible Expenditures; and (b) pay: (i) the Front-end Fee; and (ii) each Interest Rate Cap or Interest Rate Collar premium; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Eligible Expenditure Programs for Part 1 of the Project	120,000,000	100%

(2) Goods, works, non-consulting services, consulting services and Training for Part 2 of the Project	4,687,500	100%
(3) Front-end Fee	312,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 4.05 (c) of the General Conditions
TOTAL AMOUNT	125,000,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed \$ 25,000,000 equivalent may be made for payments made under Category (1) prior to this date but on or after January 18, 2017 (and in no case more than one year from the Signature Date), for Eligible Expenditures under the EEPs.
3. The Closing Date is December 30, 2022. The Bank shall only grant an extension of the Closing Date after the Guarantor's Ministry of Finance has informed the Bank that it agrees with such extension.

Section IV. Other Undertakings

1. Without limitation to the provisions set forth in Section III. of this Schedule, each withdrawal under Category (1) shall be made only after the Borrower has furnished to the Bank: (i) evidence acceptable to the Bank in its form and content and following the requirements set forth in the Project Operational Manual and the Disbursement and Financial Information Letter, confirming the achievement of the respective DLR; and (ii) evidence, in form and content acceptable to the Bank, as presented in the EEPs Spending Report, confirming that expenditures under the Eligible Expenditure Program in an amount equal to at least the amount to be withdrawn under this Category in respect of each DLR, have been incurred, and that said expenditures have not been presented before to the Bank as satisfactory evidence for withdrawals under this Agreement.
2. With respect to all DLRs, if the Bank has not received evidence of full compliance with the DLRs, the Bank shall only disburse the respective amount allocated to each DLR (as further described and detailed in the Disbursement and Financial Information Letter) corresponding to the degree of achievement of at least minimum target defined for respective DLR, as referred and calculated in accordance with the procedures set forth in the Project Operational Manual and Disbursement and Financial Information Letter.
3. If the Borrower fails to provide satisfactory evidence of sufficient Eligible Expenditures incurred under a respective EEP in respect to any Loan withdrawal request under Category (1) (as referred to in the Disbursement and Financial Information Letter), then the

correspondent undisbursed Loan amount due to the lack of Eligible Expenditures shall be carried forward to the subsequent Loan withdrawal and may be paid only if evidence of enough Eligible Expenditures incurred are presented under the subsequent withdrawal request.

4. Notwithstanding the provisions of paragraph 3 of this Section, if any of the DLRs has not been achieved by the date by which the said DLR is set to be achieved, the Bank may, by notice to the Borrower: (a) authorize the withdrawal of such lesser amount of the unwithdrawn proceeds of the Loan then allocated to said DLR in accordance with the Disbursement and Financial Information Letter, which, in the opinion of the Bank, corresponds to the extent of achievement of said DLR, said lesser amount to be calculated in accordance with the formula set out in the Project Operational Manual; (b) reallocate all or a portion of the proceeds of the Loan then allocated to said DLR to any other DLR; and/or (c) cancel all or a portion of the proceeds of the Loan then allocated to said DLR.
5. The Bank may, after consultation with, and by notice to the Borrower, adjust or reallocate from time to time the targets and amounts set forth, respectively, in Schedule 4 of this Agreement and in the Disbursement and Financial Information Letter for specific DLRs.
6. The Borrower shall ensure that the Eligible Expenditure Programs shall comply with the eligibility criteria and procedures set forth in the Project Operational Manual and in Schedule 5 to this Agreement.
7. The Borrower and the Bank agree that the budget code number indicated in Schedule 5 to this Agreement may change under the Borrower's budget law provided, however, that there is no change in the corresponding EEP described in said Schedule 5 and in the underlying activities to be financed by the Bank under such EEP. In such case, the Bank may, after consultation with, and by notice to the Borrower, adjust the corresponding budget code number.

SCHEDULE 3

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”).

Principal Payment Date	Installment Share
On each May 15 and November 15 Beginning May15, 2023 through May 15, 2048	1.92 %
On November 15, 2048	2.08 %

SCHEDULE 4

Disbursement Linked Indicators and Disbursement Linked Results

	Disbursement Linked Indicator Description	Unit of Measure	Baseline	Disbursement Linked Results			
				CY2018	CY2019	CY2020	CY2021
Health	DLI#1. Percentage of Primary Health Care coverage	Percentage	45.5	46.0	48.5	51.2	54.1
	DLI#2. Number of municipal health facilities with electronic record management system installed and operational	Units	0	7	41	92	126
	DLI#3. Percentage of Health Units with health services provision available within the Municipal Regulation System	Percentage	22	26	49	70	100
Education	DLI#4. Percentage of municipal and covenant centers (“conveniados”) monitored by SMED that deliver Early Childhood Education	Percentage	0	N/A	7	24	N/A
	DLI#5. Percentage of Early Childhood Education centers with regular monitoring and evaluation	Percentage	0	N/A	N/A	N/A	40

	feedback by SMED						
	DLI#6. Percentage of Fundamental Education schools with minimum 80% take-up of students in PROSA	Percentage	32.8	N/A	68	N/A	72
Social Assistance	DLI#7. CRAS units that meet SEMPS' minimum standard of operational functionality.	Units	0	N/A	9	15	28
	DLI#8. Number of household visits performed by <i>Cadastro Único</i> team to update socio-economic information	Number	993	3,200	9,000	N/A	N/A
	DLI#9. Enhanced management capacity of the SEMPS through the recruitment of staff	Number	0	80	150	N/A	N/A

SCHEDULE 5

List of Eligible Expenditure Programs

Budget Code	EEP
Health Sector	
10.302.0028.209100	Reorganization of the medium and high complexity Healthcare Network
10.302.0028.209600	Implementation of the emergency Healthcare Network
10.302.0011.134500	Construction and implementation of the municipal hospital (only equipment)
10.301.0027.208700	Primary Health Care services
10.302.0011.110500	Construction of Primary Care units
10.302.0011.210600	Rehabilitation of Primary Care units
10.302.0011.111400	Construction and implementation of multi-health-centers
Education Sector	
12.361.0031.214500	Maintenance of schools
12.365.0031.214600	Support to religious, community and humanitarian schools
12.365.0010.113200	Construction and implementation of municipal Early Childhood Education centers
12.361.0009.113600	Construction and implementation of full-time education centers
12.361.0031.215100	Development of Basic Education
12.361.0009.112600	Construction and implementation of new schools as per SMED standards
12.361.0009.112300	Implementation of a structured system for Basic Education I with a focus on literacy
12.361.0009.212400	Implementation of an external evaluation system
12.361.0009.212800	Reform and adaptation of the municipal schools
12.361.0031.214400	Equipment for the municipal schools
12.366.0031.214800	Development of Early Childhood Education
Social Assistance Sector	
08.243.0039.135401 / 08.243.0039.138900	<i>Primeiro Passo</i> program – social assistance actions for early childhood
08.244.0035.232401	Expansion of social assistance services and continued benefits
27.812.0017.112003	Construction of sports and leisure equipment in the communities
08.244.0035.232901	Protection of the rights of children, adolescents, elderly and the disabled
08.244.0014.233401	Maintenance of the services of protection and care for families and individuals
08.244.0014.233901	Vocational training for the homeless
08.244.0014.133101	Provision of legal assistance and counseling free of charge
08.244.0014.234001	Maintenance of the services of protection for the vulnerable population
08.122.0015.200142	Maintenance of the technical and administrative services
08.244.0035.232601	Maintenance of the community centers
08.244.0014.137800	Renovation of social assistance equipment
08.244.0035.234101	Maintenance of the social assistance equipment
08.244.0014.138100	Care - inclusion actions, development and welfare

APPENDIX

Section I. Definitions

1. “*Aluguel Social*” means the Borrower’s social program established and operating under the Borrower’s Law dated No. 8,543 dated January 15, 2014.
2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
3. “Basic Education” means educational activities for children between 6 and 11 years of age.
4. “*Cadastro Único*” means the Guarantor’s social registry, established and operating under the Guarantor’s Presidential Decree No. 6.135 dated June 26, 2007, as a single beneficiary database to service all cash transfer programs in the Guarantor’s territory.
5. “Casa Civil” means the administrative unit responsible for assisting the Borrower’s Mayor in the formulation of strategic planning and budget of the municipal administration, management and control of intersectoral strategic projects, and monitoring of performance indicators in the evaluation of result the actions undertaken by the Borrower’s Executive Branch established and operating under the Borrower’s Law No. 7,610 dated February 13, 2009.
6. “Category” means a category set forth in the table in Section III.1 of Schedule 2 to this Agreement.
7. “CRAS” means *Centros de Referência de Assistência Social*, the Borrower’s social protection centers, as established and operating under the Borrower’s Resolution No. 145/04 dated October 15, 2004 and the Guarantor’s Law No. 12,435 dated July 6, 2011.
8. “DLI” means Disbursement Linked Indicator, as referred to in Schedule 4 to this Agreement, and in more details in the Disbursement and Financial Information Letter and in the Project Operational Manual.
9. “DLR” means Disbursement Linked Result, as referred to in Schedule 4 to this Agreement, and in more details in the Disbursement and Financial Information Letter and in the Project Operational Manual.
10. “Early Childhood Education” means educational activities for children between 0 and 5 years of age.
11. “EEP Spending Report” means any report, acceptable to the Bank, and prepared by the Borrower in accordance with the Project Operational Manual following the model form included in the Disbursement and Financial Information Letter on the spending status of the Eligible Expenditures Programs under Part 1 of the Project.

12. “Eligible Expenditure Programs” or “EEPs” means a set of defined expenditures, including selected recurrent operating expenditures under the budget lines agreed with the Borrower, as set forth in Schedule 5 to this Agreement, for works, goods, non-consulting services, consulting services, Training and cash transfers under two social program lines: *Primeiro Passo* and *Aluguel Social*.
13. “ESMF” means Environmental and Social Management Framework, a framework adopted by the Borrower and dated September 2017, acceptable to the Bank, published in the Borrower’s website on September 18, 2017 and on the Bank’s website on September 26, 2017; which contains the environmental protection measures in respect of the Project, including: (i) environmental assessment, protection of natural habitats, pest management, and physical cultural resources; (ii) guidelines for the identification of existing environmental conditions and potential direct and indirect environmental impacts resulting from the carrying out of the Project; (iii) guidelines for the carrying out and the preparation of environmental and social management plans, when applicable; (iv) the recommendation of mitigation measures for each negative impact identified; and (v) measures for enhancing each identified positive impact, as said framework may be amended from time to time with the prior written approval of the Bank.
14. “Fundamental Education” means regular education between grades 1 and 9, as established and operating under the Guarantor’s Law No. 9,394 dated December 20, 1996.
15. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for IBRD Financing, Investment Project Financing”, dated July 14, 2017, with the modification set forth in Section II of this Appendix.
16. “Health Network” means collectively all the Health Units in the Borrower’s territory.
17. “Health Units” means any health unit in the Borrower’s territory offering Primary Care, Secondary Care or Tertiary Care.
18. “Municipal Regulation System” means the Borrower’s regulations on health systems, healthcare; and access to care as established under the Guarantor’s Ordinance No. 1,559 dated December 1, 2008 and the Borrower’s Decree No28,687 dated July 28, 2017.
19. “Primary Care” means the basic entry point health care given to patients seeking assistance from the Borrower’s medical care system.
20. “*Primeiro Passo*” means the Borrower’s social program established and operating under the Borrower’s Law No. 8,651 dated September 3, 2014.
21. “Procurement Regulations” means, for purposes of paragraph 85 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for Borrowers under Investment Project Financing”, dated July 1, 2016.
22. “Project Management Unit” or “PMU” means the unit in Casa Civil responsible for the implementation of the Project, established and operating under the Borrower’s Decree No.

28.919, dated September 26, 2017 and the Borrower's Law No. 9,287 dated November 7, 2017.

23. "Project Operational Manual" means the Borrower's manual, in form and substance satisfactory to the Bank, which sets forth, *inter alia*: (i) a detailed description of Project activities and institutional arrangements for the Project; (ii) the Project administrative, budgeting, accounting, auditing, reporting, financial (including cash flow aspects in relation thereto), procurement and disbursement procedures; (iii) the monitoring indicators for the Project; (iv) the institutional and administrative mechanisms established to ensure inter-institutional coordination; (v) the methodology of measurement and periodicity of DLIs and DLRs; (vi) the disbursements schedule and formulae for disbursement; (vii) the grievance mechanism; (viii) the procedures and contents for the EEP Spending Reports; and (ix) the RPF and ESMF.
24. "PROSA" means *Programa Salvador Avalia*, the standardized assessment of literacy and numeracy for Salvador, carried out by SMED in December 2013.
25. "RPF" means Resettlement Policy Framework, a framework adopted by the Borrower and dated September 2017, acceptable to the Bank, published in the Borrower's website on September 18, 2017 and on the Bank's website on September 25, 2017; which contains the resettlement protection measures in respect of the Project, including: (i) guidelines for the identification of existing social and livelihood potential direct and indirect impacts resulting from the carrying out of the Project; (ii) guidelines for the carrying out and the preparation of resettlement management plans, when applicable; and (iii) the recommendation of mitigation measures for each negative social and livelihood impact identified; as said framework may be amended from time to time with the prior written approval of the Bank.
26. "Secondary Care" means the specialist care provided on an ambulatory or inpatient basis, usually following a referral from a Primary Care center.
27. "SEMPS" means the Borrower's Municipal Secretariat of Social Promotion and Poverty Reduction (*Secretaria Municipal de Promoção Social e Combate à Pobreza*).
28. "Signature Date" means the latest of the two dates on which the Borrower and the Bank signed this Agreement and such definition applied to all references to "the date of the Loan Agreement" in the General Conditions.
29. "SMED" means *Secretaria Municipal da Educação*, the Borrower's Municipal Secretariat of Education.
30. "Tertiary Care" means the highly specialized health services provided in an ambulatory or hospital setting.
31. "Training" means expenditures (other than those for consulting services) incurred by the Borrower in connection with the carrying out of training, seminars, and workshops, including, *inter alia*, the reasonable travel costs (e.g. accommodations, transportation costs and *per diem*) of trainees and trainers (if applicable), catering, rental of training facilities

and equipment, training registration fees, as well as training materials and equipment, all under the Project.

Section II. Modifications to the General Conditions

1. The definition of the term “Loan Payment” in Paragraph 75 of the Appendix is modified to include “Exposure Surcharge” and read as follows:

“75. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, any Unwinding Amount payable by the Borrower; and the Exposure Surcharge.”