June 14, 2013

Her Excellency
Mrs. Rosalba Ciarlini
Governor
State of Rio Grande do Norte
Centro Administrativo do Estado - BR 101, Km 0
59064-901, Natal, RN
Brazil

Excellency:

Re: BRAZIL: IDF Grant for Rio Grande do Norte Strategy for Institutional Strengthening of the Secretariat of Health Project
IDF Grant No. TF014559

In response to the request for financial assistance made on behalf of the State of Rio Grande do Norte ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank") proposes to extend to the Recipient, for the benefit of the Federative Republic of Brazil ("Member Country"), a grant from the World Bank’s Institutional Development Fund ("IDF") in an amount not to exceed seven hundred thousand United States Dollars (US$700,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement through the letter from Comissão de Financiamento Externos COFIEX Nº004/2013 dated March 28, 2013, and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed original copies of this Agreement, and return one original to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature. However, the
offer of this Agreement shall be deemed withdrawn if the World Bank has not received the
countersigned copy of this Agreement within 90 days after the date of signature of this
Agreement by the World Bank, unless the World Bank shall have established a later date for
such purpose.

Very truly yours,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By
Deborah L. Wetzel
Director
Brazil
Latin America and the Caribbean Region

AGREED:

STATE OF RIO GRANDE DO NORTE

By
Authorized Representative

Name ROSALBA CIARLINI ROSADO

Title GOVERNOR OF THE STATE

Date JUNE 17, 2013

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds,
dated February 15, 2012

(2) Disbursement Letter of the same date as this Agreement, together with World Bank
Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated February 15, 2012 ("Standard Conditions"), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement, and the following additional terms have the following meanings:

(a) "Operational Manual" means the Project operational manual referred to in Section 2.03 (a) of this Agreement, as the same may be amended, from time to time, in a manner satisfactory to the World Bank.

(b) "SEARH" means Secretaria de Estado da Administração e dos Recursos Humanos, the Recipient’s Secretariat of Administration and Human Resources or any successor thereto.

(c) "SEPLAN" means Secretaria do Estado de Planejamento e Finanças, the Recipient’s Secretariat of Planning and Financing or any successor thereto.

(d) "SESAP" means Secretaria de Estado de Saúde, the Recipient’s State Secretariat of Health or any successor thereto.

(e) "Steering Committee" means the committee referred to in Section 2.03 (d) of this Agreement.

(f) "TCE/RN means Tribunal de Contas do Estado do Rio Grande do Norte, the Recipient’s supreme court of accounts created pursuant to the State of Rio Grande do Norte’s Constitution, dated January 12, 1961, and Law No. 461 dated January 5, 2012, as amended to the date of this Agreement.

(g) "Training and Workshops" means reasonable expenditures (other than those for consultants’ services) incurred by the Recipient in connection with the carrying out of training activities and workshops under the Project, including reasonable transportation costs, lodging and *per diem* of trainees, catering, rental of training facilities and rental of equipment.

Article II
Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to improve the institutional capacity and the management of SESAP, particularly in the areas of: (a) human
resources; (b) procurement; and (c) financial management. The Project consists of the following parts:

**Part 1: Rapid Assessment and Action Plan**

(a) Conducting a diagnosis of the management of SESAP in the areas of fiscal sustainability, financial management, procurement, planning, human resources management and assets management to identify the main problems and bottlenecks in health sector management.

(b) Developing a proposal for an action plan with short and medium-term measures, including a set of actions with immediate impact, to address the identified problems in the areas referred to in paragraph (a) above.

(c) Supporting SESAP with the implementation of the action plan through the provision of technical advisory services and training.

**Part 2: Long Term Strategy for the Management of the Secretariat of Health**

(a) Designing a long-term strategic action plan to improve SESAP’s management in the areas of planning, human resources management, procurement and financial management and monitoring and information system through the carrying out of stakeholders’ consultation and workshops.

(b) Conducting: (i) a workshop with stakeholders involved in the health sector to discuss the strategic action plan; and (ii) a seminar with staff of SESAP to explain, disseminate and prepare the implementation of the said plan.

(c) Providing technical advisory services and training to SESAP’s staff to facilitate the implementation of the activities included in the strategy.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through SESAP under the leadership of SEPLAN in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) 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 (“Anti-Corruption Guidelines”); (c) this Article II; and (d) the Operational Manual.

2.03. **Institutional and Other Arrangements.** For the purposes of carrying out the Project the Recipient shall:

(a) maintain, until completion of the Project, a structure, responsibilities, and key staff with functions, experience, responsibilities and qualifications acceptable to the World Bank as described in the Operational Manual;

(b) (i) carry out the Project in accordance with the terms of a manual, satisfactory to the World Bank (the Operational Manual).
Operational Manual shall include provisions detailing procedures, guidelines and standard documents for the carrying out of the Project, including, inter alia: (A) standard contractual terms for the procurement of goods and consultants’ services financed under the Project; and

(ii) (A) maintain the Operational Manual throughout Project implementation; and (B) not amend, waive, or fail to enforce the Operational Manual, or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

(c) ensure that SEPLAN carry out the Project’s related financial management functions in a manner acceptable to the World Bank; and

(d) establish and thereafter maintain, until the completion of the Project, a committee (the Steering Committee) chaired by the Secretary of Planning and Financing, and comprising inter alia, representatives of the Recipient, SEPLAN and SEARH, and key organizations as set forth in the Operational Manual, with terms of reference, operating procedures and functions which shall be acceptable to the World Bank, including inter alia, providing general oversight and guidance on the strategic, technical fiduciary and operational aspects of the Project.

2.04. Project Monitoring, Reporting and Evaluation.

(a) The Recipient shall monitor and evaluate the progress of the Project and, upon the World Bank’s request, prepare Project Reports, in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover such period as shall be indicated in the World Bank’s request and shall be furnished to the World Bank not later than one month after the date of such request.

(b) The Recipient shall, upon the World Bank’s request, prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than five months after the Closing Date.

2.05. Financial Management.

(a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than one month after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.
(c) The Recipient shall have the Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. The Recipient shall request the TCE/RN to carry out the audits. The Recipient shall present two audits during the three-year duration of this Agreement. Each such audit shall, respectively cover: (i) the period of two fiscal years of the Recipient, commencing with the fiscal year in which the first withdrawal from the Grant Account was made; and (ii) the remaining period ending with the fiscal year in which the last withdrawal from Grant Account was made. The audited Financial Statements for each such period shall be furnished to the World Bank not later six months after the end of such period.

2.06. **Procurement**

(a) **General.** All goods and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods and Non-consulting Services.** Goods and non-consulting services shall be procured under contracts awarded on the basis of Shopping.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants’ Qualifications; (B) Single-source Selection of consulting firms; and (C) Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

### Article III

**Withdrawal of Grant Proceeds**

3.01. *Eligible Expenditures.* The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td>7,400</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ Services</td>
<td>659,500</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Training and Workshop</td>
<td>33,100</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td>700,000</td>
<td></td>
</tr>
</tbody>
</table>

3.02. *Withdrawal Conditions.* Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. *Withdrawal Period.* The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three years after the date of countersignature of this Agreement by the Recipient.
Article IV
Additional Remedies

4.01. Additional Events of Suspension. The Additional Events of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following: the State of Rio Grande do Norte’s Constitution dated January 12, 1961, and Law No. 461 dated January 5, 2012, have been amended, suspended, abrogated, repealed, or waived so as to affect materially and adversely, in the opinion of the World Bank, the execution of the Project.

Article V
Termination

5.01. Termination for Lack of Implementation or Disbursement. This Agreement and all obligations of the parties under it shall terminate if it has not started implementation or has not disbursed any funds by December 29, 2013, unless the World Bank, after consideration of the reasons of the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient’s Representative; Addresses

6.01. Recipient’s Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Governor of the State of Rio Grande do Norte.

6.02. Recipient’s Address. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Secretariat of Planning and Financing - Secretaria do Estado de Planejamento e Finanças
State of Rio Grande do Norte
Centro Administrativo do Estado - BR 101, Km 0
59064-901, Natal, RN
Brazil
Facsimile: (55-84) 3232-1911

With copy to:

Ministry of Finance – Ministério da Fazenda
Esplanada dos Ministérios, Bloco P, 5º andar
70048-900 Brasília, DF
Brazil
Facsimile: (55-61) 3412-1721
Secretariat of International Affairs – Secretaria de Assuntos Internacionais do Ministério do Planejamento Orçamento e Gestão – SEAIN/MP
Esplanada dos Ministérios, Bloco P, 2º andar, Sala 219,
70048-900, Brasília, DF
Brazil
Facsimile: (55-61) 2020-5047

Secretariat of Health – Secretaria de Estado da Saúde - SESAP
Av. Deodoro, 730 – Centro
59025-225, Natal, RN
Brazil
Facsimile: (55-84) 3232-7432

6.03. World Bank’s Address. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391