

CONFORMED COPY

LOAN NUMBER 7326-BR

Loan Agreement

(Brasilia Environmentally Sustainable Project – *Programa Brasília Sustentável*)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

THE FEDERAL DISTRICT

Dated February 23, 2006

LOAN NUMBER 7326-BR

LOAN AGREEMENT

AGREEMENT, dated February 23, 2006, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the FEDERAL DISTRICT (the Borrower), which constitutes the capital of the Federative Republic of Brazil.

WHEREAS (A) the Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(B) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the payment obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan); and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth:

(a) "ADASA" means *Agência Reguladora de Águas e Saneamento do Distrito Federal*, the Borrower's Water and Sanitation Agency established pursuant to the Borrower's Law No. 3365 of June 16, 2004;

(b) "ADS" means *Agência de Desenvolvimento Social*, the Borrower's social development agency established pursuant to the Borrower's Law No. 3116 of December 30, 2002;

(c) "BELACAP" means *Serviço de Conservação de Monumentos Públicos e Limpeza Urbana do Distrito Federal*, an autarky of the Borrower in charge of the services of solid waste collection and disposal;

(d) "CAESB" means *Companhia de Saneamento Ambiental do Distrito Federal*, the Borrower's Water and Sanitation Company, established pursuant to *Decreto-Lei* No. 524 of April 08, 1969;

(e) "CAESB Agreement" means the agreement referred to in Section 3.03(b) of this Agreement;

(f) "Co-Executing Agencies" means collectively ADS, BELACAP, IBAMA, NOVACAP, SEMARH, SEDUH, SECAP, and SO (the latter six as hereinafter defined);

(g) “Co-Executing Agencies Agreements” means the agreements referred to in Section 3.03 (c) of this Agreement;

(h) “Environmental Impact Assessment” means the assessment prepared by the Borrower and contained in the report dated January 2005, which sets out the environmental protection measures in respect of Parts B and C of the Project;

(i) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

(j) “IBAMA” means *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*, the Guarantor’s Institute of the Environment and Renewable Natural Resources, established pursuant to the Guarantor’s Law No. 7735 of February 22, 1989, acting through the office located in the territory of the Borrower;

(k) “NOVACAP” means *Companhia Urbanizadora da Nova Capital do Brasil*, the Borrower’s Drainage and Pavement Company, established pursuant to the Guarantor’s Law No. 2874 of September 19, 1956;

(l) "Operational Manual" means the manual referred to in Section 3.04 (c) of this Agreement, as the same may be amended from time to time with the agreement of the Bank;

(m) “Performance Indicators” means the set of performance indicators, to be used for purposes of monitoring the progress of the Project, set forth in the Operational Manual, as such indicators may be revised with the agreement of the Bank;

(n) “PMU” means the Project management unit (*Unidade de Gerenciamento do Programa*) referred to in Section 3.05 of this Agreement;

(o) “Procurement Plan” means the Borrower’s procurement plan, dated June 29, 2005, covering the initial 18 month period of implementation of the Project, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 of this Agreement, to cover succeeding 18 month periods (or longer) of implementation of the Project;

(p) “Report-based Disbursements” means disbursements made pursuant to the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.3 of Schedule 1 to this Agreement;

(q) “Resettlement Action Plan” means each of the plans to be prepared by the Borrower for Part B.1 of the Project which sets out the principles and procedures that

will govern land acquisition, resettlement, compensation and rehabilitation measures under said Part of the Project;

(r) “Resettlement Framework” means the policy framework for resettlement, dated January 2005 , prepared by the Borrower for Part B.1 (a) (ii) of the Project, which sets out the policies and procedures that shall apply to the preparation and carrying out of any resettlement action plan that may be required under the Project;

(s) “SECAP” means *Secretaria de Estado de Captação de Recursos Financeiros do Distrito Federal*, the Borrower’s Secretariat for Fund Raising;

(t) “SEDUH” means *Secretaria do Estado de Desenvolvimento Urbano e Habitação de Distrito Federal*, the Borrower’s Secretariat of Urban and Housing Development;

(u) “SEMARH” means *Secretaria de Estado do Meio Ambiente e Recursos Hídricos do Distrito Federal*, the Borrower’s Secretariat of the Environment and Water Resources;

(v) “SO” means *Secretaria de Estado de Infra-Estrutura e Obras do Distrito Federal*, the Borrower’s Secretariat of Infrastructure and Works;

(w) “*Vila Estrutural*” means the settlement located in the vicinity of the Jóquei Clube landfill in the Borrower’s territory; and

(x) “*Vila Estrutural* Integrated Project” means the Borrower’s project for the planning and execution of integrated and multisectoral activities for the improvement of the living conditions in *Vila Estrutural*.

ARTICLE II

The Loan

Section 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 fifty-seven million six hundred and forty-three thousand Dollars (\$57,643,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan, as well as in respect of the fee referred to in Section 2.04 of this Agreement.

(b) If, at any time, the Bank determines that any amount of the Loan withdrawn from the Loan Account was used to make a payment for an expenditure that is not eligible for financing pursuant to the Loan Agreement, the Borrower shall, upon notice from the Bank to the Borrower and the Guarantor, promptly refund such amount to the Bank.

Section 2.03. The Closing Date shall be March 31, 2011, or such later date as the Bank shall establish, after having received evidence that the Guarantor has authorized the extension of the Closing Date. The Bank shall promptly notify the Borrower and the Guarantor of such later date, which shall not be a date beyond the date authorized by the Guarantor.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to, but not including, the fourth anniversary of such date; and (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time 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 said 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 Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall cause ADASA to carry out the Project with the assistance of CAESB and the Co-Executing Agencies, all with due diligence and efficiency and in conformity with appropriate technical, administrative, social, environmental, financial and engineering practices, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

(c) The Borrower shall ensure that every contract for the procurement of civil works under the Project shall contain an annex with environmental technical specifications acceptable to the Bank, to be applied by the contractors in the carrying out of civil works under the Project.

(d) The Borrower shall: (i) submit to the Bank for its prior review and approval, the terms of reference for all consultant services procured under the Project; and (ii) cause such services to be carried out in accordance with the terms of reference as approved by the Bank.

Section 3.03. Without limitation to the provisions of Section 3.01 above, the Borrower shall:

(a) delegate to ADASA, through a decree issued by the Borrower's Governor, the responsibility to carry out the Project on the Borrower's behalf, under terms and conditions satisfactory to the Bank;

(b) for purposes of carrying out Parts A.4, B.1, C.1 and C.2 of the Project, the Borrower shall transfer a portion of the proceeds of the Loan to CAESB under a subsidiary agreement (the CAESB Agreement) to be entered into between the Borrower and CAESB, under terms and conditions acceptable to the Bank, setting forth their respective roles and responsibilities regarding the implementation of said Parts of the Project; and

(c) enter into an agreement (*Convênio*) with each Co-Executing Agency, under terms and conditions satisfactory to the Bank, for the purposes of coordinating the activities assigned to each one of said Co-Executing Agencies in the implementation of the Project (collectively the Co-Executing Agencies Agreements).

Section 3.04. Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project in accordance with the provisions of: (a) the Environmental Impact Assessment; (b) the Resettlement Framework; and (c) a manual, satisfactory to the Bank (the Operational Manual), which shall contain the policies and procedures for the carrying out, monitoring and evaluation of the Project, including, *inter alia*: (i) the organizational structure of the Project; (ii) the Project procurement and financial management requirements and procedures; and (iii) the indicators to be used for Project monitoring and evaluation. In case of any inconsistency between a provision of the Operational Manual and this Agreement, the provision of this Agreement will prevail.

Section 3.05. The Borrower shall:

(a) establish and maintain, until completion of the Project, a unit within ADASA (the PMU) with staff, structure and functions satisfactory to the Bank, including, *inter alia* the ability to provide training to procurement staff and controllers of SO, CAESB and NOVACAP and the ability to adapt the procurement module of SIG (*Sistema de Informações Gerenciais*) before the Effective Date;

(b) not later than six months after the Effective Date, the Borrower shall employ, in accordance with the provisions of Section III of Schedule 4 to this Agreement, a project management consulting firm to assist the PMU in the management and supervision of the Project, and to provide support to the PMU in administrative, technical and financial matters relating to the carrying out of the Project; and

(c) ensure that appropriate mechanisms are in place for the provision of administrative, technical and financial support to the PMU for the carrying out of the Project during the period previous to the employment of the project management consulting firm referred to in paragraph (b) above.

Section 3.06. For the purposes of implementing Parts B.1, B.2, C.1, C.2, C.3 and C.4 of the Project, the Borrower shall:

(a) prior to the commencement of works under Part B.1 of the Project, furnish to the Bank for its review and approval: (i) a Resettlement Action Plan; and (ii) an environmental license issued by the appropriate environmental authority of the Guarantor;

(b) prior to the commencement of works under Part C.1 of the Project, furnish to the Bank for its review and approval an environmental license issued by the appropriate environmental authority of the Guarantor;

(c) prior to the commencement of works under Part B.2, and C.2 of the Project, furnish to the Bank for its review and approval an environmental license issued by the appropriate environmental authority of the Guarantor; and

(d) prior to the commencement of works under Part C.3 and C.4 of the Project, furnish to the Bank for its review and approval: (a) a study on the design, location and potential impact of leachate collection and treatment plants (if not already covered by the EIA); and (b) an environmental license issued by the appropriate environmental authority of the Guarantor.

Section 3.07. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than twelve months after the Effective Date and biannually thereafter during the period of Project implementation, a report integrating the results of the evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

(c) (i) review with the Bank, within no more than two months after each such report's preparation, the reports referred to in paragraph (b) of this Section; and

(ii) thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of said report and the Bank and the Borrower's views on the matter.

Section 3.08. For the purposes of Section 9.07 (c) of the General Conditions, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause ADASA and CAESB to maintain a financial management system, including records and accounts, and prepare financial

statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause ADASA to:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Report-based Disbursements, the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that the relevant statements of expenditure and reports referred to in Part A.3 of Schedule 1 to this Agreement, as the case may be, are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's reporting obligations set out in Section 3.07 of this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank (the FMR), which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided by the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover the period not covered by the previous FMR until the end of such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:

- (a) the Borrower has adopted the Operational Manual;
- (b) the PMU has been established in form and substance satisfactory to the Bank;
- (c) the Governor's Decree referred to in Section 3.03 (a) of this Agreement has been signed and the CAESB Agreement and the Co-Executing Agencies Agreements (*Convênios*) have been signed on behalf of the parties thereto.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Loan has been duly registered by the Guarantor's Central Bank.

Section 5.03. The date May 24, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Governor of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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)	(202) 477-6391

For the Borrower:

Governo do Distrito Federal
Palácio Buriti – Praça do Buriti
70075-900 Brasília – Distrito Federal
Brazil
Facsimile: (55-61) 3352-0390

With copy to:

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

Facsimile: (55-61) 3225-4022

SECAP – Secretaría de Estado de Captação de Recursos Financeiros do
Distrito Federal
SCN Quadra 4 Pétala “C” – Centro Empresarial VARIG – Mezzanino
70710-500 Brasília, DF
Brazil

Facsimile: (55-61) 3961-5050

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Laura Tuck

Authorized Representative

FEDERAL DISTRICT

By /s/ Joaquim Domingos Roriz

Authorized Representative

WITNESSED BY:

By /s/ Rossana Cunha Rêgo
*Secretária de Estado de Captação
de Recursos Financeiros do Distrito
Federal-SECAP*

By /s/ Nelson Tadeu Filipelli
*Secretário Chefe da Agência de Infra-Estrutura
e Desenvolvimento Urbano do Distrito
Federal- ADINDU*

By /s/ David José de Matos
Presidente da ADASA

By /s/ Célio Biavati Filho
Coordenador- Geral da UGP/ADASA

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works:		
(a) under Part B, C.3 and C.4 of the Project	35,943,000	100%
(b) under Part C.2 of the Project	4,500,000	23%
(2) Consultants' services	13,900,000	100%
(3) Goods:		
(a) under Parts A and D of the Project	1,200,000	100%
(b) under Part C of the Project	1,000,000	20%
(4) Fee	576,430	Amount due under Section 2.04 of this Agreement
(5) Unallocated	<u>523,570</u>	
TOTAL	<u>57,643,000</u>	

2. Notwithstanding the provisions of Paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

3. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR or any other type of report acceptable to the Bank and any

other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request. Disbursements will be made by the Bank to an account of the Borrower to be operated by the Borrower under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to ensure the supply of quality water resources to meet the demands of the Borrower's metropolitan area by improving environmental planning and management activities. These activities will be further enhanced by the carrying out of poverty reduction strategies in certain urban areas and the rehabilitation of the environment around key river basins.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objective:

Part A: Policy and Institutional Development

1. Provide technical assistance to SEDUH to: (i) improve its territory development and land management policies; (ii) develop updated management technical tools; and (iii) assess and improve its institutional arrangements and knowledge capacity.
2. Develop studies and provide technical support to SEMARH and IBAMA in the area of environment and water resource management to enable these agencies to address key metropolitan and local urban challenges.
3. Provide technical assistance to BELACAP to improve its solid waste management policies and increase its institutional knowledge capacity.
4. Provide technical assistance: (i) for the establishment and initial operation of a sanitation company for the adjacent areas of the Borrower's territory; and (ii) to CAESB to finalize its environmental certification system.

Part B: Social Inclusion and Environmental Protection

1. (a) Under the *Vila Estrutural* Integrated Project initiative: (i) improve living conditions of the inhabitants of *Vila Estrutural* by improving local governance and providing social and basic services; (ii) include the community in regular city planning and service activities by developing a resettlement plan and improving *Vila Estrutural's* urban design; and (iii) develop a technical proposal for the rehabilitation and protection of *Vila Estrutural's* surrounding areas to mitigate environmental degradation.

(b) Carry out proposed civil works and promote community participation in the *Vila Estrutural* Integrated Project.

2. (a) Develop a social inclusion plan for the scavengers in the *Jóquei Clube* solid waste landfill to enable them to improve their working and social condition, said plan to include, *inter alia*: (i) professional development and personal effectiveness programs; and (ii) social support activities.

(b) Execute said social inclusion plan by carrying out the social and technical activities identified therein and by carrying out civil works and providing equipment to scavengers.

Part C: Water Resources Protection

1. Abate the pollution of the Rocinha, Lajinha and Coqueiros rivers by improving sanitation services in *Águas Lindas de Goiás*.

2. Abate the pollution of the *Vicente Pires* stream by improving sanitation services in neighboring low-income communities and carrying out the required civil works to that effect.

3. Determine a course of action for future closure of the *Jóquei Clube* solid waste landfill based on the various alternatives proposed in technical designs and carry out civil works according to approved designs.

4. Construct a solid waste sanitary landfill according to technical designs developed and approved under the Project.

5. Use tertiary treatment levels to disinfect waste water sludge produced by the Borrower's waste water treatment plants.

Part D: Project Management

1. Support the establishment and operation of the PMU, as well as the overall Project administration, supervision, auditing activities and monitoring and evaluation.

2. Provide technical assistance to strengthen the institutional capacity of SECAP.

* * *

The Project is expected to be completed by September 30, 2010.

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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which the Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each March 15 and September 15	
Beginning September 15, 2010 through September 15, 2021	4.17%
On March 15, 2022	4.09%

2. If the proceeds of the Loan shall not 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 as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such subparagraph 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said 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 principal amount of the Loan withdrawn and outstanding from time to time shall be 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

Procurement

Section I. General

A. All goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods and Works.

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding: Goods estimated to cost \$100,000 or more but less than \$500,000 equivalent per contract and works estimated to cost \$500,000 or more but less than \$10,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions, using bidding documents, satisfactory to the Bank, in a standardized form for the Project:

(a) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.52 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;

(b) whenever required by the Bank, the invitation to bid shall be advertised in at least one newspaper of national circulation in the Guarantor's territory;

(c) the arrangements, under the invitation to bid, for joint-ventures (*consórcios*) of Brazilian and foreign firms shall be approved in advance by the Bank in each case;

(d) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

(e) the purchaser shall not, without the Bank's prior approval, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$500,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping procedures, and a standard request for quotations acceptable to the Bank.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments costing less than \$100,000 equivalent per contract and which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances

described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.