

Public Disclosure Authorized

**CONFORMED COPY**

**LOAN NUMBER 7420-BR**

# **Loan Agreement**

**(Additional Financing for the Federal Water Resources Management Project)**

**between**

**FEDERATIVE REPUBLIC OF BRAZIL**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated September 20, 2007**

Public Disclosure Authorized

**LOAN AGREEMENT**

AGREEMENT dated September 20, 2007, entered into between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and the FEDERATIVE REPUBLIC OF BRAZIL (“Borrower”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank hereby agree as follows:

**ARTICLE I – GENERAL CONDITIONS; DEFINITIONS**

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

**ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of fifty million Dollars (\$50,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“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 IV of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. In the event that the Borrower selects not to capitalize the Front-end Fee, the Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.

- 2.05. 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, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; 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.
- 2.06. The Payment Dates are February 15 and August 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.08. (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 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 4.04 (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.
- 2.09. The Borrower's Minister at the time responsible for National Integration or the President of ANA, or any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for purposes of taking any action required or permitted to be taken under the provisions of Section IV of Schedule 2 to this Agreement and Article II of the General Conditions.

### **ARTICLE III - PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall, through: (a) ANA, carry out Parts 1(a)(i), 1(a)(ii), 1(a)(iii), 1(a)(iv), 3(a)(i) and 3(a)(ii) of the Project; (b) SIH/MI carry out Parts 1(a)(i), 1(a)(ii), 1(a)(iii), 1(a)(iv), 3(a)(i) and 3(a)(ii) of the Project; and with respect of Part 2 of the Project take all the necessary steps in order to ensure that each Existing Participating State performs in accordance with the provisions of this Agreement; (c) each Existing Participating State (as provided in the corresponding Umbrella Agreement), carry out Parts 1(b), 2 and 3(b) of the Project; and (d) each New Participating State (as provided in the corresponding Umbrella Agreement), carry out Parts 1(b), and 3(b) of the Project, 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**

- 4.01. 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 June 19, 2008.
- 4.02. The Additional Legal Matter consists of the following, namely, that the Loan has been duly registered with the Central Bank of Brazil.

### **ARTICLE V – REPRESENTATIVE; ADDRESSES**

- 5.01. The Borrower's Representative is the Ministry of Finance of the Borrower.
- 5.02. The Borrower's Address is:

Ministério da Fazenda  
Esplanada dos Ministérios, Bloco P, 8º andar  
70048-900, Brasília, DF  
Brazil

Facsimile: (55-61) 3412-1740

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

Facsímile: (55-61) 3225-4022

*Agência Nacional de Águas*  
Setor Policial Sul  
Área 05, Quadra 03, Bloco M  
70610-200, Brasília, DF  
Brazil

Facsímile: (55-61) 2109-5296

*Ministério da Integração Nacional*  
*Secretaria de Infra-estrutura Hídrica*  
Esplanada dos Ministérios, Bloco E, 9º andar  
70067-901, Brasília, DF  
Brazil

Facsímile: (55-61) 3414-5493

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:

Telex:

Facsimile:

INTBAFRAD  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(1-202) 477-6391

AGREED at Brasília, Federative Republic of Brazil, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ John Briscoe

Authorized Representative

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Suely Dib de Sousa e Silva

Authorized Representative

## SCHEDULE 1

### Project Description

The objectives of the Project are: (a) to promote efficient allocation and rational and sustainable use and participatory management of water resources at the Borrower's level and in the Participating States; (b) to provide reliable and sustainable water supply in selected areas of the Participating States; and (c) to scale up the impact of the Original Project by consolidating the institutional and legal reforms supported by the Original Project and allow for the expansion of actions to support the management of water resources in New Participating States and the increase in water supply for multiple uses in Participating States.

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 objectives:

#### Part 1: Water Resources Management:

(a) At the Borrower's Level:

- (i) Institutional Development: Strengthening of the institutional and regulatory framework for supporting the implementation of the SINGRH, through, *inter alia*: (A) provision of goods and consultants' services for the ANA; (B) technical assistance to implement bulk water tariffs and rights systems; (C) training programs designed to produce skilled water resources professionals and members of WUAs; (D) technical assistance for the preparation of water projects; (E) in respect of Federal Waters, development of a plan for the expansion and/or improvement of the existing hydrometeorological network, the installation of new strategic hydrometeorological stations as provided in such plan, and the development of a comprehensive information system (encompassing hydrologic data, information on water rights, water tariffs, hydraulic infrastructure, user associations and water availability, in quantitative and qualitative terms); and (F) support for the establishment of WUAs and River Basin Committees in Federal Waters.
- (ii) Planning and Studies: In respect of Federal Waters, preparation of: (A) water resources management plans, including the initial assessment of water resources, with priority for those river basins that have an actual or potential conflict in the use of water; (B) plans for recovering the existing infrastructure; (C) water resources management plans designed for mitigating emergency situations; and (D) related technical studies.
- (iii) Watershed Management Models and Pilot Initiatives: Carrying out of studies and activities agreed to between the Borrower and the Bank for the development of pilot experiences or replicable models for water

resources or watershed management in the areas of water quality, estuarine management, coastal zone management, erosion control, sediment transport, watershed protection and conservation, water reuse, or the management of Federal Rivers.

- (iv) Complementary Studies to Support the Implementation of Water Resources Infrastructure in the Northeast Region: Carrying out of studies and plans to support the development of projects for the implementation of hydraulic infrastructure in priority watersheds of the Borrower's Northeast region including, *inter alia*, environmental studies, environmental impact assessments, feasibility studies, economic evaluations, and any other technical studies agreed to between the Borrower and the Bank.

(b) At the Participating State's Level:

- (i) Institutional Development: Strengthening of the institutional and regulatory framework for water resources management of the Participating States consistent with the principles set forth in the SINGRH, through, *inter alia*: (A) support for the establishment of capable water resources agencies in the Participating States; (B) support for the adoption of a tailor-made procedure for the design and implementation of water laws and regulations in the Participating States; (C) technical assistance to implement bulk water tariffs and rights systems; (D) development of specific studies and research to support the transition from federal participation to local participation in the decision making process; (E) training programs designed to produce skilled water resources professionals and members of WUAs; (F) in respect of State Waters and consistent with the activities set forth in Part 1(a)(i)(E) of the Project, development of a plan for the expansion and/or improvement of the existing hydrometeorological network, the installation of new strategic hydrometeorological stations as provided in the plan referred to in this paragraph, and the development of a comprehensive information system (encompassing hydrologic data, information on water rights, water tariffs, hydraulic infrastructure, user associations and water availability, in quantitative and qualitative terms); and (G) support for the establishment of WUAs and River Basin Committees in State Waters.
- (ii) Planning: Development of: (A) water resources master plans at the basin and Participating State levels; (B) water resources management plans for State Waters, including the initial assessment of water resources, with priority for those river basins that have an actual or potential conflict in the use of water; and (C) plans for rehabilitation of the existing infrastructure in State Waters.

- (iii) Pre-investment and other studies: Carrying out of: (A) pre-investment studies (including engineering studies, designs, cost estimates, social and environmental impact assessments, and resettlement and compensation studies) for potential Subprojects; (B) water availability studies; and (C) operational studies and decision support models for reservoirs and water resources systems.

Part 2: Subprojects:

Carrying out of Subprojects consisting of: (a) pipelines; (b) simplified water supply systems; (c) other related hydraulic infrastructure; (d) environmental mitigation and resettlement measures; (e) groundwater development systems; and (f) dams.

Part 3: Project Administration, Monitoring and Evaluation:

- (a) At the Borrower's Level: Provision of goods and consultants' services for the purposes of financing Project management activities, including: (i) overall coordination and routine management; and (ii) monitoring, evaluation, and support for auditing activities of the Project.
- (b) At the Participating State's Level: Provision of goods and consultants' services for the purposes of financing Project management activities, including: overall coordination, routine management, monitoring and evaluation of the Project activities executed at the level of the respective Participating State.

## SCHEDULE 2

### Project Execution

#### Section I. Institutional and Other Arrangements

1. For the purposes of carrying out the Project, the Borrower shall maintain during Project implementation: (a) the UGPG within ANA; (b) the PROAGUA Managing Committee; and (c) the UGPO within SIH/MI, all with responsibilities, structure and functions satisfactory to the Bank.
2. The Borrower shall continue to employ monitoring and evaluation services for the purposes of, *inter alia*: (a) monitoring and evaluating Project implementation, including its socio-economic impact and any adverse environmental and resettlement impacts; (b) presenting its evaluation of the Annual Operating Plans and progress reports to the PROAGUA Managing Committee, for the approval by such Committee of said Plans; (c) furnishing semi-annual reports to the PROAGUA Managing Committee and to the Bank on the compliance by the relevant Participating States of their respective obligations under the Project; and (d) providing mid-term and final reports to the PROAGUA Managing Committee on the implementation of the Project.
3. The Borrower shall prepare and furnish to the Bank by November 30 of each year, an annual operating plan (the Annual Operating Plan), satisfactory to the Bank as endorsed by the PROAGUA Managing Committee and detailing the Project activities proposed to be carried out during the next succeeding year (including Subprojects) and the respective sources of funding therefore.
4.
  - (a) For the purposes of implementing Parts 1(b) and 3(b) of the Project, the Borrower shall, prior to the submission of a Loan withdrawal application for the respective Project activities, enter into an agreement (the Umbrella Agreement) with each New Participating State, upon receipt from the Bank of a notification confirming that said New Participating State has a technical, financial, administrative and fiduciary capacity acceptable to the Bank, setting forth the technical, financial, administrative and fiduciary aspects of the federal and state participation in the implementation and use of funds of said Parts 1(b) and 3(b) of the Project, including the obligation of each New Participating State to: (i) maintain a management unit with structure acceptable to the Bank, including a coordinator, a financial manager and a technical manager; and (ii) maintain a state financial, budgetary and procurement system in place acceptable to the Bank.
  - (b) For the purposes of implementing Parts 1(b), 2 and 3(b) of the Project, the Borrower shall, prior to the submission of a Loan withdrawal application for the respective Project activities, enter into an agreement (the Umbrella Agreement) with each Existing Participating State, setting forth the technical, financial,

administrative and fiduciary aspects of the federal and state participation in the implementation and use of funds of said Parts 1(b), 2 and 3(b) of the Project, including the obligation of each Existing Participating State to: (i) maintain a management unit with structure acceptable to the Bank, including a coordinator, a financial manager and a technical manager; and (ii) maintain a state financial, budgetary and procurement system in place acceptable to the Bank.

- (c) The Borrower shall exercise its rights and carry out its obligations under each Umbrella Agreement and cause each Participating State to exercise their rights and carry out their obligations under each said Umbrella Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and except the Bank otherwise agree, the Borrower shall not assign, amend, abrogate, repeal, terminate, waive or fail to enforce any Umbrella Agreement or any provision thereof.
  - (d) The Borrower shall: (i) furnish to the Bank a report, on June 30 and December 31, starting on any such date after the Effective Date, indicating and listing the existing Umbrella Agreements entered into to the date; and (ii) make said Umbrella Agreements available to the Bank upon request.
5. For the purposes of carrying out Parts 1(b) and 3(b) of the Project, the Borrower shall, through ANA and through SIH/MI:
- (a) continue, when applicable, entering into Institutional Development Agreements with an Existing Participating State or a New Participating State, as the case may be, for the purposes of: (i) governing such Participating State's participation and responsibility in the carrying out of its corresponding activities under Parts 1(b) and 3(b) of the Project; and (ii) providing a Grant to finance part of the costs of such activities; and
  - (b) continue exercising its rights and complying with its obligations under each Institutional Development Agreement in such manner as to continue protecting the interest of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any of such Institutional Development Agreement or any provisions thereof.
6. For the purposes of carrying out Part 2 of the Project, the Borrower shall, through SIH/MI:
- (a) continue, when applicable, entering into Subproject Agreements with an Existing Participating State, for the purposes of: (i) governing such Existing Participating State's participation and responsibility in the carrying out of a Subproject; and (ii) providing a Grant to finance part of the costs of such Subproject;

- (b) continue exercising its rights and complying with its obligations under each Subproject Agreement in such manner as to continue protecting the interest of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any of such Subproject Agreements, or any provisions thereof; and
  - (c) when presenting a Subproject to the Bank for approval, continue furnishing to the Bank an application in form and substance acceptable to the Bank, and in conformity with the Operational Manual, containing, *inter alia*: (i) an appraisal of the Subproject, and a description of the expenditures proposed to be financed, including those expenditures proposed to be financed out of the proceeds of the Loan; (ii) a detailed description of how the relevant Existing Participating State and such Subproject meet the eligibility criteria set forth in the Operational Manual; (iii) a plan for the administration, operation and maintenance of the proposed Subproject; (iv) evidence that land and rights in respect of land are physically and legally available for the purposes of the proposed Subproject; (v) evidence that the Existing Participating State holds the corresponding water rights for the purposes of the proposed Subproject; (vi) evidence that the Existing Participating State holds the corresponding environmental permits required for the execution of the works planned under the proposed Subproject; (vii) whenever applicable, evidence of compliance with the provisions set forth in Paragraph 7 of this Section I; (viii) whenever a Subproject requires the undertaking of environmental protection measures and/or resettlement of population: the corresponding environmental assessment and/or resettlement action plan, as such assessment and/or plan shall have been prepared in accordance with the Environmental Management Framework and with terms of reference satisfactory to the Bank, and, in the case of a resettlement action plan, in accordance with the Resettlement Framework; (ix) whenever a Subproject requires the undertaking of measures to ensure the development and protection of indigenous peoples, the corresponding IPDP, prepared in accordance with the Indigenous Peoples Development Framework; and (x) such other information as the Bank shall reasonably request in respect of the relevant Subproject.
7. Whenever a Subproject includes the construction of a dam which is fifteen meters or more in height, or which is between ten and fifteen meters in height and presents, in the opinion of the Bank, special design complexities, the Borrower shall cause, or continue causing, as the case may be, each Participating State to: (a) establish and thereafter maintain during the design and initial operation of said Subproject, a Dam Safety Review Panel under terms of reference and arrangements acceptable to the Bank; (b) have the relevant dam, reservoir and related structures to be periodically inspected by independent qualified professionals under terms of reference acceptable to the Bank, in order to determine whether there are any deficiencies in the condition of such structures, or in the quality and adequacy of maintenance or methods of operation of the same, which may endanger their safety; (c) furnish to the Bank for its review the periodic reports of the

Dam Safety Review Panel and the professionals referred to in subparagraph (b) above, together with each Participating State own comments; and (d) no later than six months before the expected completion of the relevant dam, reservoir and related structures, propose to the Bank for its review and approval, appropriate arrangements for their operation and maintenance.

8. The Borrower shall cause, or continue causing, as the case may be, each Existing Participating State to: (a) whenever a Subproject requires the undertaking of environmental protection measures and/or resettlement of population, carry out the mitigation measures provided in the corresponding environmental assessment and/or carry out the resettlement action plan in a manner and within a timetable satisfactory to the Bank; and (b) whenever a Subproject requires the undertaking of measures to ensure the development and protection of indigenous peoples, carry out the IPDP in a manner and within a timetable satisfactory to the Bank.
9. The Borrower shall continue carrying out the Project in accordance with: (a) the Operational Manual; (b) the Water Sector Policy Letter; and (c) the relevant Annual Operating Plan, in a manner satisfactory to the Bank.

## **Section II. Project Monitoring, Reporting, Evaluation**

### **A. Project Reports.**

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 the indicators set forth in the Operational Manual and agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty-five (45) days after end of the period covered by such report.

### **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 forty-five (45) days after the end of each calendar quarter, interim un-audited 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 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 Section I of the Procurement Guidelines, and with the provisions of this Schedule.
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 Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, 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 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. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding
(b) Shopping

Contracts awarded on the basis of National Competitive Bidding are subject to the following additional provisions:

- (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 Procurement 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 for at least three consecutive days in a newspaper of wide circulation in Brazil.
- (c) The arrangements, under the invitation to bid, for a joint-venture (*consórcio*) 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.
- (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.

**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 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.

<b>Procurement Method</b>
(a) Least-Cost Selection
(b) Selection based on Consultants' Qualifications
(c) Single-source Selection
(d) Procedures set forth in Paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(e) Sole Source Procedures for the Selection of Individual Consultants

**D. Review by the Bank of Procurement Decisions**

- 1. The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Section IV. Withdrawal of the Proceeds of the Loan**

**A. General.**

1. The Recipient may withdraw the proceeds of the Loan in accordance with the provisions of this Section and 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 table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocations of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) For Parts 1(a) and 3(a) of the Project:		
(a) Goods	1,000,000	40% until disbursements under this Category shall reach an aggregate amount of \$400,000; and 20% thereafter.
(b) Works (only for Part 1(a)(iii) of the Project)	-0-	
(c) Consultants’ services and training	10,000,000	40% until disbursements under this Category shall reach an aggregate amount of \$4,000,000, and 20% thereafter.
(2) For Parts 1(b), 2 and 3(b) of the Project:		
(a) Goods	9,250,000	40% until disbursements under this Category shall reach an aggregate amount of \$3,700,000, and 20% thereafter.

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(b) Works (except for Parts 1(b) and 3(b) of the Project)	19,050,000	40% until disbursements under this Category shall reach an aggregate amount of \$7,620,000, and 20% thereafter.
(c) Consultants' services and training	9,950,000	40% until disbursements under this Category shall reach an aggregate amount of \$3,980,000, and 20% thereafter.
(3) Incremental Recurrent Costs for Parts 1 and 3 of the Project	750,000	40% until disbursements under this Category shall reach an aggregate amount of \$300,000; and 20% thereafter.
(4) Front-end fee	-0-	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions.
(5) Premium for Interest Rate Caps and Collars	-0-	Amount payable pursuant to Section 2.08 (c) of this Agreement in accordance with Section 4.04 of the General Conditions.
TOTAL	<u>50,000,000</u>	

**B. Withdrawal Conditions; Withdrawal Period.**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:
  - (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee, if the Borrower selects not to capitalize the Front-end Fee.
  - (b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$5,000,000 equivalent may be made for payments made during the twelve months immediately before this date for Eligible Expenditures under Categories (1) through (3).

2. The Closing Date is December 21, 2009. The Bank will only grant an extension of the Closing Date after the Borrower's Ministry of Finance has informed the Bank that it agrees with such extension.

**Section V.      Other Undertakings**

The Borrower shall, no later than three months after the Effective Date: (i) furnish to the Bank at least six Umbrella Agreements, all in form and substance satisfactory to the Bank; and, (ii) adopt a new inter-ministerial resolution (*Portaria Inter-ministerial*) for the establishment or reestablishment of the PROAGUA Managing Committee, all in form and substance satisfactory to the Bank.

**SCHEDULE 3**

**Amortization Schedule**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each February 15 and August 15  Beginning on February 15, 2012 through February 15, 2023	4.17%
On August 15, 2023	4.09%

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 subparagraph (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 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 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.

## APPENDIX

### Section I. Definitions

Unless the context otherwise requires, the several terms defined in the Original Loan Agreement, its subsequent amendments and the General Conditions, have the respective meanings therein set forth, and are hereby incorporated to this Agreement. Additionally, the following definitions also constitute an integral part of this Agreement:

1. “ANA” means *Agência Nacional de Águas*, the Borrower’s National Water Agency, created and operating under the Borrower’s Law No. 9.984, dated July 17, 2000.
2. “Annual Operating Plan” means each plan referred to in Section I.3 of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Recipients” published by the Bank in May 2004.
4. “Environmental Management Framework” means the document dated September 22, 2006, as published and available to the public on the website [www.ana.gov.br/proagua/biblioteca.asp](http://www.ana.gov.br/proagua/biblioteca.asp), which contains the environmental protection measures in respect of the Project, including identification of existing environmental conditions and potential direct and indirect environmental impacts from the carrying out of the Project, recommendation of mitigation measures for each negative impact identified, as well as measures for enhancing each identified positive impact.
5. “Existing Participating States” means the Borrower’s states of *Piauí, Ceará, Rio Grande do Norte, Maranhão, Paraíba, Pernambuco, Alagoas, Sergipe, Bahia and Minas Gerais*, all of which are hereby also deemed to constitute “Participating States” whenever this term is used in this Agreement and which are eligible for civil works financing under Part 2 of the Project.
6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
7. “Grant” means a grant made or proposed to be made by the Borrower: (i) through ANA, for the implementation of Parts 1 (b) (i), 1 (b) (ii) (A), 1 (b) (ii) (B), 1 (b) (iii) (B), 1 (b) (iii) (C) and 3 (b) of the Project, and through SIH/MI, for the implementation of Parts 1 (b) (ii) (C), 1 (b) (iii) (A), 1 (b) (iii) (C) and 3 (b) of the Project as provided in each Institutional Development Agreement, for the benefit of a Participating State; and (ii) through SIH/MI, for the implementation of Part 2 of the Project as provided in each Subproject Agreement for the benefit of an Existing Participating State.
8. “Indigenous Peoples Development Framework” means the document dated October 9, 1997 and updated on September 22, 2006, published and available to the public on the

website [www.ana.gov.br/proagua/biblioteca.asp](http://www.ana.gov.br/proagua/biblioteca.asp), which contains the principles and policies that shall apply to the preparation and carrying out of any IPDP that may be required under the Project.

9. “Institutional Development Agreement” means each agreement entered into between ANA on one hand and Participating States on the other hand as referred to in Section I.5 of Schedule 2 to this Agreement for the implementation of Parts 1 (b) (i), 1 (b) (ii) (A), 1 (b) (ii) (B), 1 (b) (iii) (B), 1 (b) (iii) (C) and 3 (b) of the Project; and between SIH/MI on one hand and Participating States on the other hand for the implementation of Parts 1 (b) (ii) (C), 1 (b) (iii) (A), 1 (b) (iii) (C) and 3 (b) of the Project.
10. “IPDP” means Indigenous Peoples Development Plan, a plan satisfactory to the Bank, for the purposes of mitigating any adverse impact on indigenous peoples as a result of a Subproject and ensuring that they benefit from such Subproject.
11. “New Participating States” means the Borrower’s states of *Acre, Amapá, Amazonas, Distrito Federal, Espírito Santo, Goiás, Mato Grosso, Mato Grosso do Sul, Pará, Paraná, Rio de Janeiro, Rio Grande do Sul, Rondônia, Roraima, Santa Catarina, São Paulo* and *Tocantins*, all of which are hereby also deemed to constitute “Participating States” whenever such term is used in this Agreement (the only difference being that New Participating States will have to undergo technical, financial, administrative and fiduciary assessment before becoming parties to Umbrella Agreements as hereinafter defined and will not be eligible for civil work financing under Part 2 of the Project).
12. “Operational Manual” means the manual issued by the PROAGUA Managing Committee dated May 6, 1998, and updated on November 13, 2006 which contains the guidelines and operating procedures for the execution of the Project, including the Environmental Management Framework, the Indigenous Peoples Development Framework, and the Resettlement Framework.
13. “Original Loan Agreement” means the loan agreement for the Original Project between the Bank and the Borrower, dated June 3, 1998 (Loan No.4310-BR).
14. “Original Project” means the Project described in Schedule 2 to the Original Loan Agreement.
15. “Participating States” means any Existing Participating State or New Participating State which has met the criteria set forth in this Agreement and in the Operational Manual and has executed an Umbrella Agreement with the Borrower in form and substance satisfactory to the Bank.
16. “PROAGUA Managing Committee” means the managing committee established pursuant to *Portaria Inter-ministerial* No. 1 of March 27, 1998, as the same may be amended, abrogated or waived through a new inter-ministerial resolution (*Portaria Inter-ministerial*) to be adopted by the Borrower.

17. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
18. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated November 10, 2006 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.
19. “Resettlement Framework” means the document dated October 9, 1997 and updated on September 22, 2006, published and available to the public on the website [www.ana.gov.br/proagua/biblioteca.asp](http://www.ana.gov.br/proagua/biblioteca.asp), which contains the principles and policies that shall apply to the preparation and carrying out of any resettlement plan that may be required under a Subproject.
20. “SIH/MI” means *Secretaria de Infra-estrutura Hídrica*, the Borrower’s National Secretariat for Hydraulic Infrastructure within the Ministry of National Integration, created and operating under the Borrower’s Decree No. 5.847, dated July 14, 2006.
21. “SINGRH” means *Sistema Nacional de Gerenciamento de Recursos Hídricos*, the Borrower’s National System of Water Resources Management described in the Water Sector Policy Letter.
22. “Subproject” means an infrastructure subproject selected by the relevant Existing Participating State and endorsed by the Borrower, to be carried out by said Existing Participating States, as selected by the Borrower and approved by the Bank in accordance with relevant provisions of the Operational Manual, the Umbrella Agreement and the Subproject Agreement and comprising the activities set forth in Part 2 of the Project.
23. “Subproject Agreement” means each agreement entered into between SIH/MI on one hand and Existing Participating States on the other hand as referred to in Section I.6 of Schedule 2 to this Agreement for the implementation of Part 2 of the Project.
24. “UGPG” means *Unidade de Gerenciamento do Projeto-Gestão*, the Project Management Unit within ANA in charge of the day-to-day management of Parts 1(a)(i), 1(a)(ii), 1(a)(iii), 1(a)(iv), 3(a)(i), 3(a)(ii) and 3 (b).
25. “UGPO” means *Unidade de Gerenciamento do Projeto-Obras*, the Project Management Unit within SIH/MI in charge of the day-to-day management of Parts 1(a)(i), 1(a)(ii), 1(a)(iii), 1(a)(iv), 2, 3(a)(i), 3(a)(ii) and 3(b).
26. “Umbrella Agreement” means an agreement (*Termo de Compromisso*), in form and substance satisfactory to the Bank, to be executed among ANA, SIH/MI on the one hand and, as the case may be, Existing Participating States or New Participating States, on the other hand, for the implementation of Parts 1(b), 2 and 3(b) of the Project.
27. “WUA” means water users associations lawfully established in the Borrower’s territory.

