

CONFORMED COPY

LOAN NUMBER 7732-BR

Loan Agreement

**(Additional Financing for the Bahia State Integrated Project: Rural Poverty
*Projeto Integrado do Estado da Bahia: Pobreza Rural – Projeto de Combate à Pobreza
Rural no Interior do Estado da Bahia – Produzir III*)**

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

STATE OF BAHIA

Dated December 9, 2010

LOAN AGREEMENT

Agreement dated December 9, 2010 , between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and the STATE OF BAHIA (“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 and modified in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty million Dollars (\$30,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing 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. The Borrower’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is its Secretary for Development and Regional Integration.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower

shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time, in each case with the prior no-objection of the Guarantor, through the Secretariat of the National Treasury of the Guarantor's Ministry of Finance, request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall cause the Project to be carried out by CAR 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 — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that the Technical Cooperation Agreement has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower or CAR to perform any of their obligations under the Technical Cooperation Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 120 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Technical Cooperation Agreement has been signed on behalf of the Borrower, through its Secretariat for Development and Regional Integration, and CAR in form and substance satisfactory to the Bank.
- 5.02. The Additional Legal Matters consist of the following:
- (a) The Technical Cooperation Agreement has been duly authorized or ratified by the Borrower and CAR and is legally binding upon the Borrower and CAR in accordance with its terms.
 - (b) The Loan has been duly registered with the Guarantor's Central Bank.
- 5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on January 27, 2011.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. Except as provided in Section 2.02 of this Agreement, the Borrower's Representative is its Governor.

6.02. The Borrower's Address is:

Secretariat for Development and Regional Integration
Avenida Luiz Viana Filho, Conjunto SEPLAN
Centro Administrativo da Bahia
Salvador, BA, 41745-000
Brazil
Facsimile: (55-71) 3371-0015

With copies to:

SEAIN - Secretaria de Assuntos Internacionais do
Ministério do Planejamento, Orçamento e Gestão
Espalanada dos Ministérios - Bloco K - 5º andar
Brasília, DF, 70040-906
Brazil
Facsimile: (55-61) 2020-5006

And to:

CAR - Companhia de Desenvolvimento e Ação Regional
Avenida Luiz Viana Filho Conjunto Seplan, CAB
Salvador, BA, 41745-000
Brazil
Facsimile: (55-71) 3371-0015

Secretaria do Planejamento
Avenida Luiz Viana Filho
Segunda Avenida, 250
Centro Administrativo da Bahia
Salvador, BA, 41745-000
Brazil
Facsimile: (55-71) 3115-3945

Secretaria da Fazenda
Avenida Luiz Viana Filho
Segunda Avenida, 260
Centro Administrativo da Bahia
Salvador, BA, 41745-000
Brazil
Facsimile: (55-71) 3115-8802

6.03. The Bank's Address is:

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

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

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Makhtar Diop

Authorized Representative

STATE OF BAHIA

By /s/ Jaques Wagner

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to increase social and economic opportunities for Municipalities' rural poor by improving their access to basic social and economic infrastructure, thus contributing to the Borrower's objective of increasing its Human Development Index.

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 1: Community Subprojects

Financing of grants for small scale community investments (Community Subprojects) consisting, *inter alia*, of: (a) infrastructure investments such as for rural water supply and electrification; (b) social investments such as construction of day care centers and rehabilitation of schools and health posts; and (c) other productive investments such as for small-scale community agro-processing and minor irrigation schemes.

Part 2: Institutional Development

- (a) Provision of technical assistance and training for Community Associations in, *inter alia*, community mobilization and organization, preparation of Community Subprojects and operation and maintenance of such Community Subprojects.
- (b) Provision of training to the Municipal Councils and to CAR with respect to their role and responsibilities, the contents of the Operational Manual, subproject evaluation and supervision, environmental assessment of Community Subprojects, participatory planning and financial management.

Part 3: Project Administration, Supervision, Monitoring and Evaluation

Provision of support for the overall Project implementation, coordination, supervision, monitoring and evaluation activities carried out by CAR.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional and Other Arrangements

1. For the purposes of carrying out the Project, the Borrower shall maintain CAR with responsibilities, structure and functions satisfactory to the Bank.
2. The Borrower shall continue, through CAR: (a) preparing and furnishing to the Bank annual operating plans and budgets, satisfactory to the Bank, detailing the Project activities proposed to be carried out during the next succeeding year and the respective sources of funding therefor, by October 30 of each year during Project implementation; and (b) furnishing to the Bank the approved annual operating plans and respective budgets referred to in paragraph (a) of this Section for each year in question, not later than 30 days after the approval of the Borrower's annual budget by its *Assembléia Legislativa* (Legislative Assembly).
3. The Borrower shall continue, through CAR, carrying out the Project in accordance with the Operational Manual, the Environmental Management Plan, the Indigenous Peoples' Plan, all as updated in form and substance satisfactory to the Bank, and in accordance with the approved annual operating plans and respective budgets, in a manner satisfactory to the Bank.

B. Technical Cooperation Agreement

1. To facilitate the carrying out of the Project by CAR, the Borrower shall maintain the Technical Cooperation Agreement and make the proceeds of the Loan available to CAR under said Technical Cooperation Agreement between the Borrower and CAR, under terms and conditions approved by the Bank as further specified in the Operational Manual.
2. The Borrower shall exercise its rights under the Technical Cooperation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Technical Cooperation Agreement or any of its provisions.

C. Anti-Corruption

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

D. Community Sub-projects

1. The Borrower shall make Area Grants to Community Associations in accordance with eligibility criteria and procedures acceptable to the Bank as further detailed in the Operational Manual.
2. The Borrower, through CAR, shall enter into Area Grant Agreements appropriate for the carrying out of the Project, such agreements to be made in accordance with terms of the respective draft set forth in model forms approved by the Bank and included in the Operational Manual (the Model Forms) in which the Borrower shall obtain rights adequate to protect its interests and those of the Bank, including the right to: (1) suspend or terminate the right of a Community Association to use the proceeds of the Area Grant, or obtain a refund of all or any part of the amount of the Area Grant then withdrawn, upon the Community Association's failure to perform any of its obligations under the Area Grant Agreement; and (2) require each Community Association to: (a) carry out its Community Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Borrower, the Environmental Management Plan and the Indigenous Peoples' Plan; (b) provide, promptly as needed, the resources required for the purpose; (c) procure the goods, works and services to be financed out of the Area Grant in accordance with the provisions of this Agreement; (d) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Community Subproject and the achievement of its objectives; (e) (i) maintain a simplified financial management system and records in accordance with consistently applied accounting standards acceptable to the Bank for community driven initiatives, both in a manner adequate to reflect the operations, resources and expenditures related to the Community Subproject; and (ii) at the Bank's or the Borrower's request, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank; (f) enable the Borrower and the Bank to inspect the Community Subproject, its operation and any relevant records and documents; and (g) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.
3. The Borrower shall exercise its rights under each Area Grant Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Area Grant Agreement or any of its provisions.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators set forth in the Operational Manual. Each Project Report shall cover the period of one fiscal year of the Project, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.
2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than January 31, 2014.

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 days after the end of each quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Non-Consultants' Services.** All goods, works and non-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 Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **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, Works and Non-Consultants' Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consultants' services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods, Works and Non-Consultants' Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) National Competitive Bidding, subject to the following additional provision, namely that the bidding documents shall be acceptable to the Bank.
(b) Shopping
(c) Community Participation procedures for Part 1 of the Project for contracts costing less than \$50,000 equivalent, as described in the Operational Manual.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(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

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 Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance 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 allocation 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) Goods, works and services required for Community Subprojects supported by:		
(a) Area 1 Grants	10,400,000	75%
(b) Area 2 Grants	15,600,000	
(2) Consultants' services and training for Parts 2 and 3 of the Project	2,700,000	100%
(3) Administrative Costs		
(a) incremental operational costs	220,000	20%
(b) Project supervision and monitoring costs	330,000	50%
(4) Front-end Fee	75,000	Amount payable pursuant to Section 2.03 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 2.07 (c) of this Agreement in accordance with Section 4.04 of the General Conditions
(6) Unallocated	<u>675,000</u>	
TOTAL	30,000,000	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$3,000,000 equivalent may be made for payments made within twelve months prior to such date for Eligible Expenditures under Categories (1), (2) and (3).
2. The Closing Date is July 31, 2013. The Bank will only grant an extension of the Closing Date after the Guarantor's Ministry of Finance has informed the Bank that it agrees with such extension.

SCHEDULE 3

Amortization Schedule

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

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each March 15 and September 15 Beginning September 15, 2015 through March 15, 2038	2.13%
On September 15, 2038	2.02%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. “Administrative Costs” means the operational costs (which would not have occurred absent the Project, including, *inter alia*, equipment and computer maintenance, office supplies, utilities, and rent for office facilities) and the supervision and monitoring costs of the Project incurred by CAR under Part 3 of the Project (including, *inter alia*, operation and maintenance of vehicles, repairs, fuel, spare parts and insurance, maintenance of the monitoring and information system, travel and per diem costs for technical staff of CAR carrying out training, supervisory and quality control activities, but excluding expenditures for salaries and related benefits).
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Area Grants” means Area 1 Grants or Area 2 Grants.
4. “Area Grant Agreements” means any of the agreements to be entered into between the Borrower through CAR and a Community Association for an Area Grant.
5. “Area 1 Grant” means grants to be made by the Borrower through CAR to a Community Association for the financing of the Community Subprojects in the Borrower’s 100 Municipalities with the lowest Human Development Index.
6. “Area 2 Grants” means grants to be made by the Borrower to a Community Association for the financing of Community Subprojects in the Borrower’s Municipalities other than the Municipalities benefiting from Area 1 Grants.
7. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
8. “CAR” means *Companhia de Desenvolvimento e Ação Regional*, the Borrower’s development agency for regional activities, as created and operating under the Borrower’s Law (*Lei Delegada*) No. 30, dated March 3, 1983.
9. “Community Association” means an association a civil association formed by members of a community (*associação civil*) duly established in the Borrower's territory in accordance with the Guarantor's laws, and which meets the criteria set forth in the Operational Manual for participating in the Project.

10. "Community Subproject" means any investment referred to in Part 1 of the Project to be carried out by a Community Association utilizing the proceeds of an Area Grant, and which meets the criteria set forth in the Operational Manual.
11. "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in May 2004 and revised in October 2006.
12. "Environmental Management Plan" means the document dated August 1, 2008, as published and available to the public on the website www.car.ba.gov.br which contains the environmental protection measures in respect of the Project, including measures for chance finding of cultural property and pest management, identification of existing environmental conditions and potential direct and indirect environmental impacts from the carrying out of the Project, including Community Subprojects, recommendation of mitigation measures for each negative impact identified, as well as measures for enhancing each identified positive impact.
13. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005 (as amended through February 12, 2008).
14. "Human Development Index" means the index which is measured by the Guarantor's *Instituto de Pesquisas Econômicas Aplicadas – (IPEA)* on the basis of the indicators for education, health, and income in the Borrower's territory.
15. "Indigenous Peoples' Plan" means the document dated December 1, 2008, as published and available to the public on the website www.car.ba.gov.br which contains protection measures in favor of indigenous peoples located in the Borrower's territory, including the description and location of indigenous areas in the Borrower's territory, strategy for the participation of indigenous peoples in the Project with due respect to their cultural identity, institutional partnerships, process of participation, risks and mitigating measures, and monitoring and evaluation procedures.
16. "Model Forms" means the set of model draft Area Grant Agreements, satisfactory to the Bank, as set forth in the Operational Manual.
17. "Municipal Council" means a municipal council, composed mainly of representatives of communities and local organizations, as provided in the Operational Manual.
18. "Municipality" or "Municipalities" means any and all the municipalities in the Borrower's territory which are eligible to receive an Area Grant pursuant to the criteria set forth in the Operational Manual.

19. “Operational Manual” means the manual for the operation of the Project dated May 26, 2009 referred to in Section I.A.3. of Schedule 2 to this Agreement, approved by the Borrower and in form and substance satisfactory to the Bank, which includes, *inter alia*, the following: (a) procedures to be followed (i) in the event that environmental issues are identified on the checklist for Community Subprojects; (ii) to identify and address potential cumulative environmental impacts from multiple Community Subprojects; and (iii) to ensure an integrated pest management approach in irrigation investments; (b) a description of the consultations carried out in respect of the Environmental Management Plan; (c) the Environmental Management Plan and the Indigenous Peoples’ Plan; and (d) a revised Model Form consistent with the requirements of Section I.D.2. of Schedule 2 to this Agreement; as the same may be amended from time to time by agreement between the Borrower and the Bank.
20. “Original Loan Agreement” means the loan agreement for the Original Project between the Bank and the Borrower, dated December 14, 2005 (Loan No. 7327-BR).
21. “Original Project” means the Project described in Schedule 2 to the Original Loan Agreement.
22. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
23. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated May 8, 2009 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.
24. “Technical Cooperation Agreement” means an agreement (*Convênio*) to be signed between the Borrower, through its Secretariat for Development and Regional Integration, and CAR for the implementation of the Project and in form and substance satisfactory to the Bank.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest*

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (l) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

...(l) *Ineligibility.* The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”