

**LOAN NUMBER 3789-BR**

# **Loan Agreement**

**(Ceará Urban Development and Water  
Resource Management Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**STATE OF CEARÁ**

**Dated December 16, 1994 (as amended)**

**LOAN NUMBER 3789-BR**

**LOAN AGREEMENT**

AGREEMENT, dated December 16, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF CEARÁ (the Borrower), as amended.

WHEREAS: (A) 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, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; 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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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 and the following additional terms have the following

meanings:

- (a) "BEC" means Banco do Estado do Ceará, the State's bank;
- (b) "BEC Agreements" means the agreements between the Borrower and BEC, dated April 15, 1994, whereby BEC has agreed to assist the Borrower in making FDU Subsidiary Loan Agreements and FDU Grant Agreements;
- (c) "Beneficiary" means either a Municipality, or SRH, or SEINFRA, or CAGECE, or COELCE, or a Municipal Water and Sewerage Company;
- (d) "CAGECE" means Companhia de Água e Esgoto do Ceará, the Borrower's water and sewerage company;
- (e) "CAGECE Performance Plan" means the financial plan for CAGECE described in the letter dated April 15, 1994 from the Borrower to the Bank;
- (f) "COELCE" means Companhia Energética do Estado do Ceará, the Borrower's power company;
- (g) "Part B.3 Grant" means any of the grants to be made by the Borrower to a Municipality out of the proceeds of the FDU, pursuant to a Part B.3 Grant Agreement, for purposes of financing a Subproject under Part B.3 of the Project;
- (h) "COGERH" means Companhia de Gestão dos Recursos Hídricos, the Borrower's water resources management company;
- (i) "Dam Safety Review Panel" means the panel of experts in dam safety who will assist SRH in the reviews referred to in Section 3.06 (b) of this Agreement, pursuant to the terms of reference included in SRH's dam safety program issued in June 1994, such panel to be composed of experts with qualifications acceptable to the Bank;
- (j) "DNOCS Agreement" means the agreement dated February 8, 1994, as amended, between Departamento Nacional de Obras contra as Secas and the Borrower providing for the transfer to the Borrower of the responsibility for the operation and maintenance of the reservoirs included in Part C.3 of the Project;
- (k) "FDU" means Fundo de Desenvolvimento Urbano do Estado do Ceará, the Borrower's urban development fund, created pursuant to the Borrower's law No. 12252/94, to which shall be deposited the proceeds of the Loan and the Borrower's counterpart funds allocated to finance Parts A. 1, B.1, B.2, B.3 and D.1 of the Project;
- (l) "FDU Grant" means any grant made under a FDU Grant Agreement;
- (m) "FDU Grant Agreement" means any of the agreements referred to in Section 3.03 (a)(i) of this Agreement;

(n) "FDU Subloan" means any loan made under a FDU Subsidiary Loan Agreement;

(o) "FDU Subsidiary Loan Agreement" means any of the agreements referred to in Section 3.03 (b) of this Agreement;

(p) "Part B.3 Grant Agreement" means any of the agreements referred to in Section 3.03 (a) (ii) of this Agreement;

(q) "FUNCEME" means Fundação Cearense de Meteorologia e Recursos Hídricos, the Borrower's Foundation of Meteorology and Water Resources;

(r) "Municipal Water and Sewerage Company" means any water and sewerage company owned or controlled by a Municipality, which is considered by the Borrower as eligible, pursuant to the criteria specified in the Operational Manual, to receive FDU Subloans;

(s) "Municipality" means any municipality of the Borrower which is considered by the Borrower as eligible, pursuant to the criteria specified in the Operational Manual, to participate in the carrying out of Parts A.1, B.1 and B.3 of the Project;

(t) "Operational Manual" means the manual issued by SEINFRA through Portaria No. 094/94, of July 14, 1994, containing, inter alia, a basic Project orientation guide for the Beneficiaries, eligibility criteria for the Beneficiaries, eligibility criteria for the Subprojects, standard bidding documents and letters of invitation, Subproject monitoring and evaluation criteria and guidelines for the preparation of environmental assessments of Subprojects and of resettlement and mitigation plans;

(u) "Subsidy Policy" means the policy of the Borrower to be issued as required in paragraph 3 (g) (ii) of Schedule 1 to this Agreement;

(v) "SEMACE" means Superintendência Estadual do Meio Ambiente, SEINFRA's Superintendency of Environment;

(w) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(x) "SRH" means Secretaria dos Recursos Hídricos, the Borrower's Secretariat for Water Resources;

(y) "SETAS" means Secretaria do Trabalho e Ação Social, the Borrower's Labor and Social Assistance Secretariat;

(z) "SEINFRA" means Secretaria da Infraestrutura, the Borrower's

Infrastructure Secretariat;

(aa) "Subproject" means any of the projects included in Parts B.1, B.2, B.3 and C of the Project which fulfills the eligibility criteria specified in the Operational Manual, provided that Subprojects under Parts B.3, C.1 and C.3 of the Project must also have been approved by the Bank;

(bb) "UGPDU" means the unit within SEINFRA created for the purposes of managing the execution of Parts A.1, B and D.1 of the Project;

(cc) "UGPRH" means the unit within SRH created for the purposes of managing Parts A.2, C and D.2 of the Project; and

(dd) "Fortaleza Pilot Project" means the pilot project referred to in Part B.4 of the Project.

## **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 the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred and forty million dollars (\$140,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2002 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. 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 2.08. The Secretary of SEINFRA in respect of Parts A. 1, B and D.1 of the Project, and the Secretary of SRH in respect of Parts A.2, C and D.2 of the Project, and the person or persons designated in writing by such Secretaries in connection with the relevant Parts of the Project as referred to above, are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 (a) of this Agreement and Article V of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall: (a) carry out through SEINFRA or cause, through FDU Grant Agreements, Municipalities, CAGECE and SEMACE to carry out their corresponding activities under Part A.1 of the Project; (b) carry out through SRH Parts A.2, C and D.2 of the Project; (c) cause, through FDU Subsidiary Loan Agreements and FDU Grant Agreements, Municipalities and COELCE to carry out Part B.1 of the Project; (d) cause, through FDU Subsidiary Loan Agreements and FDU Grant Agreements, Municipalities, CAGECE and Municipal Water and Sewerage Companies to carry out Part B.2 of the Project; (e) cause, through FDU Subsidiary Loan Agreements and Part B.3 Grant Agreements, Municipalities to carry out Part B.3 of the Project; (f) through SEINFRA, carry out Part B.4 of the Project; and (g) pursuant to arrangements satisfactory to the Bank, carry out Part D.1 of the Project through Municipalities with assistance of SETAS, all with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, engineering and environmental practices and the provisions of the Operational Manual and the Subsidy Policy, and the Borrower shall provide, 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 consultants' 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.

(b) The Borrower shall, not later than January 31 of each year during the execution of the Project, publish a general notice in one newspaper of wide national circulation in Brazil, acceptable to the Bank, and in the Development Business or other international publication acceptable to the Bank, containing information, satisfactory to

the Bank, about the Project and the types and amounts of contracts expected to be awarded under the Project, pursuant to the provisions of Part A of Section I of Schedule 4 to this Agreement, during the relevant calendar year.

Section 3.03 (a) The Borrower, through BEC, shall enter into agreements: (i) with Municipalities, CAGECE, COELCE and Municipal Water and Sewerage Companies (the FDU Grant Agreements) whereby the Borrower shall undertake to transfer, on a grant basis, to each Municipality, CAGECE, COELCE and each Municipal Water and Sewerage Company, as the case may be, the proceeds of the FDU allocated to finance, on a grant basis, the respective components of Part A.1 of the Project and the Subprojects under Parts B.1 and B.2 of the Project under the responsibility of such Municipality, CAGECE, COELCE and Municipal Water and Sewerage Company, such FDU Grant Agreements to have terms and conditions satisfactory to the Bank, including those set forth or referred to in Part II of Schedule 6 to this Agreement; and (ii) with Municipalities, under terms and conditions satisfactory to the Bank (the Part B.3 Grant Agreements), whereby the Borrower shall undertake to make Part B.3 Grants to Municipalities in accordance with the Subsidy Policy, provided, however, that the aggregate amount of Part B.3 Grants shall not exceed forty percent (40%) of the total cost of Part B.3 Subprojects.

(b) The Borrower, through BEC, shall enter into agreements with Municipalities, CAGECE, COELCE and Municipal Water and Sewerage Companies (the FDU Subsidiary Loan Agreements), whereby the Borrower shall relend to each Municipality, CAGECE, COELCE and each Municipal Water and Sewerage Company the proceeds of the Loan deposited in the FDU and allocated to finance their respective Subprojects under Part B of the Project; such FDU Subsidiary Loan Agreements to have terms and conditions satisfactory to the Bank, including those set forth in Part I of Schedule 6 to this Agreement.

(c) The Borrower shall exercise its rights and comply with its obligations under the BEC Agreements, the FDU Grant Agreements, the FDU Subsidiary Loan Agreements and the Part B.3 Grant Agreements in such manner as to protect the interests 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 or fail to enforce any of such agreements or any provision thereof.

(d) The Borrower, through BEC, shall use the proceeds of the principal repaid and interest and other charges paid under the FDU Subloans to make further loans to the Beneficiaries under the same terms and conditions of the FDU Subloans and for projects similar to the Subprojects.

Section 3.04. The Borrower shall, during the execution of the Project: (a) maintain the UGPDU and UGPRH with functions, responsibilities and staff satisfactory to the Bank; and (b) provide, promptly as needed, the funds, facilities, services and other resources required by the UGPDU and UGPRH to carry out their functions and responsibilities in a timely manner.



Section 3.05. Without limitation to the provisions of Section 9.01 (a) of the General Conditions, the Bank and the Borrower shall, on the eighteenth month after the Effective Date, exchange views on the feasibility of having the coordination of the carrying out of Parts A.2, C and D.2 of the Project to be transferred from UCP to a unit within SRH. If the Bank and the Borrower agree on such feasibility, the Borrower shall, promptly thereafter, create and maintain, within SRH, such unit, with functions, responsibilities and staff satisfactory to the Bank, and shall provide, promptly as needed, the funds, facilities, services and other resources required by such unit to carry out its functions and responsibilities in a timely manner.

Section 3.06. (a) The Borrower shall: (i) not later than twelve months after the Effective Date, complete, under terms of reference satisfactory to the Bank, a study on the expected cumulative environmental impact of Part C of the Project, and furnish to the Bank a copy of such study; and (ii) not later than December 31, 1994, furnish to the Bank a copy of the first phase of such study.

(b) The Borrower shall: (i) maintain the Dam Safety Review Panel during the execution of Part C of the Project; and (ii) carry out, in accordance with the terms thereof, the program, presented by the Borrower to the Bank in June 1994, of periodic reviews of dam safety to be conducted by such Panel in respect of the reservoirs included in Part C of the Project.

(c) The Borrower shall, during the execution of the Project, maintain within SRH a unit with the responsibility of reviewing the physical, biological and social (including resettlement) impacts of the Subprojects under Part C of the Project, and of monitoring the environmental mitigatory measures recommended for such Subprojects, such unit to be assisted by at least one environmental and resettlement specialist acceptable to the Bank.

Section 3.07. (a) The Borrower shall submit to the prior approval of the Bank any Subproject under Parts B.3, C1 and C.4 of the Project, and the Fortaleza Pilot Project.

(b) When submitting any of such Subprojects or the Fortaleza Pilot Project, as the case may be, to the Bank for approval, the Borrower shall furnish to the Bank an application, in form and substance satisfactory to the Bank, which shall include: (i) a summary of the appraisal of such Subproject or the Fortaleza Pilot Project, as the case may be, a description of the expenditures proposed to be financed out of the proceeds of the Loan, and the plan for the financing of such Subproject or the Fortaleza Pilot Project, as the case may be; and (ii) such other information as the Bank shall reasonably request in respect of such Subproject or the Fortaleza Pilot Project, as the case may be.

Section 3.08. The Borrower shall:

(a) not later than twelve months after the Effective Date, complete a study,

under terms of reference approved by the Bank, on bulk water tariff;

(b) promptly thereafter, exchange views with the Bank on the recommendations of such study; and

(c) based on the recommendations of such study, establish an appropriate tariff structure for bulk water to be supplied by COGERH, and put it into effect in accordance with the timetable recommended by such study, provided, however, that the implementation of such tariff structure shall start not later than August 1, 1995.

Section 3.09. Without limitation to the provisions of Section 9.07 of the General Conditions, the Borrower, through the UGPDU and UGPRH, shall furnish to the Bank:

(a) a report of such scope and in such detail (including, inter alia, the monitoring indicators set forth in the Operational Manual) as the Bank shall reasonably request: (i) not later than January 31, April 30, July 31 and October 30 of each year during the execution of the Project, on the execution of the Project in the calendar quarter next preceding such dates; and (ii) not later than February 28 of each year during the execution of the Project, on the execution of the Project in the calendar year next preceding such date; and

(b) one month before the review referred to in Section 3.10 (a) of this Agreement, a report on the overall Project implementation and detailing the progress in the carrying out of Part A.2 of the Project, of such scope and in such detail as the Bank shall reasonably request.

Section 3.10. Without limitation or restriction to any of the provisions of this Agreement and the General Conditions, the Borrower shall:

(a) on the thirtieth month after the Effective Date, undertake a review with the Bank of the progress in the execution of the Project and the attainment of its objectives; and

(b) take or cause to be taken any remedial action which shall have been agreed upon by the Bank and the Borrower, during the review referred to in paragraph (a) above, as necessary to be taken for the efficient execution of the Project or for the attainment of its objectives, such action to be taken in the manner and within the timetable agreed upon during such review.

Section 3.11. The Borrower shall:

(a) through SRH, carry out the resettlement plan referred to in paragraph 3 (e) (iii) of Schedule 1 to the Loan Agreement, and take any mitigatory measures that may be recommended by the environmental impact assessment also referred to in such paragraph 3 (e) (iii), all in a manner and according to a timetable satisfactory to the Bank; and

(b) through SEINFRA, carry out any mitigatory measures that may be recommended by the environmental impact assessment referred to in paragraph 3 (h) of Schedule 1 to the Loan Agreement, in a manner and according to a timetable satisfactory to the Bank.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower, through the UGPDU and UGPRH, shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices its operations, resources and expenditures in respect of the Project.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, 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 the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, such report to include, inter alia, information on the compliance by the Borrower and the Beneficiaries with the procurement procedures referred to in Part C.2 of Section I of Schedule 4 to this Agreement; and

(iii) furnish to the Bank such other information concerning said records and accounts as well as the audit thereof as the Bank shall 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 statements of expenditure, the Borrower shall:

(i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records;  
and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

## ARTICLE V

### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that the DNOCS Agreement is not being complied with in accordance with its terms, provided, however, that in such a case, the suspension by the Bank of the Borrower's right to make withdrawals from the Loan Account may be limited by the Bank to withdrawals related to Subprojects under Part C of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. 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) at least four FUNORH Grant Agreements to finance at least four Subprojects under Part C.1 of the Project have been entered into;
- (b) at least five FDU Subsidiary Loan Agreements to finance Subprojects under Part B of the Project have been entered into between the respective parties thereto; and
- (c) this Agreement has been registered by the Central Bank of Brazil.

Section 6.02. The following are specified as additional matters, 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:

- (a) this Agreement has been registered by the Central Bank of Brazil; and
- (b) all acts, consents, and approvals, together with all necessary powers and rights in connection therewith, have been duly and validly performed or given and no other such acts, consents or approvals are required in order to authorize the carrying out of the Project and to enable the Borrower and the Guarantor to perform all of their respective covenants, agreements and obligations contained in this Agreement and the Guarantee Agreement, respectively.

Section 6.03. The date March 19, 1995 is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Governor of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. 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:

INTBAFRAD  
Washington, D.C.

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

For the Borrower:

Governo do Estado do Ceará  
Palácio do Governo - 2º Andar  
Cambeba 60.839-900  
Fortaleza, Ceará  
Brazil

With copies to:

SEAIN-Secretaria de Assuntos Internacionais  
Secretaria de Planejamento, Orçamento e Coordenação  
da Presidência da República  
Esplanada dos Ministérios - Bloco K - 5º Andar  
70040-906 Brasília, DF  
Brazil

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Secretaria da Infraestrutura  
Centro Administrativo Governador Virgílio  
Távora  
Edifício Sede da Seplan - 1º Andar  
60050-081 Fortaleza, Ceará  
Brazil

Secretaria de Recursos Hídricos  
Rua Antonio Augusto 555  
60110-370 Fortaleza - Ceará  
Brazil

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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/ Gobind T. Nankani  
Acting Regional Vice President  
Latin America and the Caribbean

STATE OF CEARÁ

By /s/ Francisco de Paula Rocha Aguiar  
Authorized Representative



**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 Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works under Parts A.1, B.1, B.2 and D.1 of the Project	39,105,000	70%
(2) Goods under Parts A.1, B.2 and D.1 of the Project	9,000,000	100%
(3) Consultants' services under Parts A.1, B.1, B.2 and D.1 of the Project	17,143,000	100%
(4) Other Services under under Parts A.1, B and D.1 of the Project	740,000	100%
(5) Works under Parts A.2 and C of the Project	41,541,000	70%
(6) Goods under Parts A.2 and C of the Project	8,723,000	70%
(7) Consultants' services under Parts A.2, C and D.2 of the Project	9,584,000	100%
(8) Other Services under Part A.2 of the Project	364,000	100%
(9) Goods, works and services for Subprojects under Part B.3 of the Project	11,800,000	65%
	<u>Amount of the Loan Allocated</u>	<u>% of</u>

<u>Category</u>	<u>(Expressed in Dollar Equivalent)</u>	<u>Expenditures to be Financed</u>
(10) Goods, works and services under the Fortaleza Pilot Project	2,000,000	50%
	TOTAL	<u>140,000,000</u>
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor;

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor; and

(c) the term "other services" includes transportation and training activities, and printing materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$14,000,000, may be made on account of payments made for expenditures before that date but after November 1, 1993 or a date which is 12 months before the date of this Agreement, whichever is later;

(b) expenditures under Part A.2 of the Project for any component under the responsibility of a Beneficiary, unless the corresponding FDU Grant Agreement has been entered into;

(c) expenditures under any Subproject in Part B of the Project, unless the Bank has been furnished with the environmental mitigation plan for such Subproject, as required and approved by SEMACE;

(d) expenditures under any Subproject in Part B of the Project, unless the corresponding FDU Subsidiary Loan Agreement or FDU Grant Agreement has been entered into;

(e) expenditures for any Subproject under Parts C.1 and C.4 of the Project, unless: (i) such Subproject has been approved by the Bank; (ii) such Subproject has received a certificate of approval issued by the Dam Safety Review Panel; and (iii) the

Bank has been furnished with a summary of the environmental impact assessment (or, if requested by the Bank, the entire environmental impact assessment) in respect of such Subproject and any resettlement plan which may be required as a result of such Subproject, all satisfactory to the Bank;

(f) expenditures for any Subproject under Part C.3 of the Project regarding a reservoir owned by DNOCS, unless the Bank has been furnished with evidence satisfactory to the Bank that the responsibility for operation and maintenance of such reservoir has been transferred to the Borrower pursuant to the DNOCS Agreement;

(g) expenditures for any Subproject under Part B.3 of the Project, unless (i) such Subproject has been approved by the Bank, and (ii) in the case of the first such Subproject being also financed by a Part B.3 Grant, the Borrower has adopted a policy establishing eligibility criteria and conditions, satisfactory to the Bank, for the making of Part B.3 Grants (the Subsidy Policy); and

(h) expenditures for the Fortaleza Pilot Project, unless such project has been approved by the Bank, and an environmental impact assessment of such project has been carried out in a manner satisfactory to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works and consultants' services costing less than the equivalent of \$250,000 in the case of goods, \$2,000,000 in the case of works, \$100,000 in the case of consulting firms and \$50,000 in the case of individual consultants, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (a) to strengthen the financial management and institutional capacity of Municipalities and the Borrower's urban development and water resources management agencies; (b) to improve living conditions in very poor neighborhoods in selected cities in the Borrower's territory; (c) to increase the efficiency of water use in the Borrower's territory; and (d) to provide a reliable, economic and safe source of water supply to targeted urban communities in critical need in the Borrower's territory.

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 A: Institutional Development

1. Administrative and financial strengthening of Municipalities and the Borrower's agencies involved in the carrying out of Part B of the Project, through technical assistance, training, provision of information technology equipment, and carrying out of studies to further develop the Borrower's environmental control, urban development (including a municipal taxation study) and resettlement policies.
2. Assistance in the implementation of the Borrower's water resource management policy, including the establishment of basin planning and real-time management in at least four of the Borrower's eleven basins, technical assistance and training to SRH's staff for the carrying out of Part C of the Project, which will require the utilization of consultants' services and acquisition and utilization of equipment, and a study on bulk water tariffs.

#### Part B: Urban Infrastructure

1. Subprojects designed to provide basic municipal infrastructure (low-cost sanitation, drainage, street paving and lighting, housing, and community facilities) targeted to the poor population in about 71 areas in small towns and medium-sized cities (including vacated areas) in the Borrower's territory.
2. Subprojects for (i) installation of water supply and sewerage connections and for low-cost sewage treatment in the areas included in Part B.1 of the Project, and (ii) water supply conservation in Municipalities other than Fortaleza.
3. Subprojects (other than those under Parts B.1, B.2 and C of the Project) which are considered as of a high priority nature pursuant to the Municipality's strategic plan.
4. A pilot project for the urban upgrading of low-income areas in Fortaleza.

Part C: Water Resources Management Infrastructure

1. Subprojects for the construction of about 14 water storage reservoirs.
2. Subprojects for the construction of about 11 water supply conveyance systems for supplying water for the 14 water storage reservoirs referred to in Part C.1 above, and about 10 water supply conveyance systems from existing reservoirs in the Borrower's territory.
3. Subprojects for rehabilitation of existing reservoirs in the Borrower's territory.
4. Subproject for the construction of the trans-basin diversion system related to the Jaguaribe and Icapuí rivers (excluding studies under the Ceará Pilot Project which may be financed by the Bank).

Part D: Pilot Projects

1. A pilot program to provide vocational education for children of low income families.
2. A pilot program to test the implementation of the legal framework with respect to the Borrower's water market.

\* \* \*

The Project is expected to be completed by September 30, 2001.

**SCHEDULE 3**

**Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars) *</u>
On each March 15 and September 15	
beginning March 15, 2000 through September 15, 2009	7,000,000

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\*The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

**Premiums on Prepayment**

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

<u>Time of Prepayment</u>	<u>Premium</u>
percentage per the Loan	The interest rate (expressed as a annum) applicable to on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

## SCHEDULE 4

### Procurement and Consultants' Services

#### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use or cause to be used the relevant standard bidding documents issued by the Bank for the use of its borrowers, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use or cause to be used bidding documents based on other internationally recognized standard forms agreed with the Bank.

##### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Brazil may be granted a margin of preference in accordance with the provisions of the Guidelines, provided, however, that:

1. All bidding documents for the procurement of goods shall clearly indicate any preference which would be granted, the information required to establish the eligibility of a bid for such preference and the following methods and stages that will be followed in the evaluation and comparison of bids.

2. After evaluation, responsive bids will be classified in one of the following two groups:

(a) Group A: bids offering goods manufactured in Brazil if the bidder shall have established to the satisfaction of the Borrower and the Bank that such goods contain components manufactured in Brazil equal to at least 50% of the value of the



complete goods.

(b) Group B: bids offering any other goods.

3. In order to determine the lowest evaluated bid of each group, all evaluated bids in each group shall first be compared among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, or the sales and similar taxes levied in connection with the sale or delivery of the goods pursuant to the bids. Such lowest evaluated bids shall then be compared with each other, and if, as a result of this comparison, a bid from group A is the lowest, it shall be selected for the award.

4. If, as a result of the comparison under paragraph 3 above, the lowest evaluated bid is a bid from group B, all group B bids shall be further compared with the lowest evaluated bid from group A after adding:

(a) to the evaluated bid price of goods to be imported in each group B bid an amount equal to the smaller of: (i) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in such group B bid; or (ii) 15% of the c.i.f. bid price of such goods; and

(b) to the evaluated bid price of goods supplied domestically offered in each group B bid an amount equal to the smaller of: (i) the amount of customs duties and other import taxes which would be levied on the goods offered in such group B if they originated from the same foreign country as the bid included in group B which enjoys the lowest customs duties and other import taxes; or (ii) 15% of the ex-factory bid price of such goods.

If, as a result of this comparison, the bid from group A is the lowest, it shall be selected for the award; if not, the lowest evaluated bid from group B, as determined under paragraph 3 above, shall be selected for the award.

#### Part C: Other Procurement Procedures

1. Civil works and goods estimated to cost the equivalent of \$5,000,000 and \$250,000 or less per contract, respectively, up to an aggregate amount equivalent to \$98,600,000, in the case of civil works, and \$26,000,000, in the case of goods, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Civil works and goods estimated to cost the equivalent of \$100,000 and \$25,000 or less per contract, respectively, up to an aggregate amount equivalent to \$7,000,000, in the case of civil works, and \$20,500,000, in the case of goods, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three contractors or suppliers, as the case may be, eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract to be awarded pursuant to the provisions of Part A hereof, and to all contracts for civil works estimated to cost the equivalent of \$2,000,000 or more, to be awarded pursuant to the provisions of Part C.1 hereof, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Part E: FSRMM

For the purposes of this Schedule and the Guidelines, the term "customs duties and other import taxes" includes the Guarantor's Freight Surcharge for the Renewal of the Merchant Marine (*Adicional ao Frete Para a Renovação da Marinha Mercante*), established by Decree Law 1,142 of December 30, 1970, as amended to December 31, 1987, or any other tax, levy or charge that, in the reasonable opinion of the Bank, may substitute it, in whole or in part, after January 1, 1988.

Part F: Special Provisions

Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement of goods and/or works to be undertaken pursuant to Part C hereof:

1. 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 2.51 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.

2. 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.

3. 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.

4. The invitation to bid shall not establish, for purposes of acceptance of bids, minimum and/or maximum amounts for the contract prices.

5. 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.

## Section II. Employment of Consultants

1. In order to assist the Borrower and the Beneficiaries in the carrying out of the Project, the Borrower shall employ or cause to be employed consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ or cause to be employed such consultants under contracts using the standard form of contract for consultants' services issued by the Bank for the use of its borrowers, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use or cause to be used other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to

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\$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$12,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall

have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

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(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

**SCHEDULE 6**

**Subsidiary Loan Agreements and  
FDU Grant Agreements**

Part I. FDU Subsidiary Loan Agreements

The FDU Subsidiary Loan Agreements shall include the following terms and conditions, as applicable:

1. FDU Subloans shall have the following repayment and grace periods:

<u>Maximum Repayment Type of Subproject (Years)</u>	<u>Maximum Grace Period (Years)</u>	<u>Period</u>
Subprojects for community facilities, street paving, housing, recuperation of vacated areas, drainage and low-cost sanitation under Part B.1 of the Project, and for water supply conservation under Part B.2 (ii) of the Project	7	2
Subprojects for street lighting under Part B. 1 of the Project	5	2
Subprojects for water supply connections under Part B.2 (i) of the Project	10	2
Subprojects for low-cost sewage treatment and for sewerage connections under Part B.2 (i) of the Project	10	3



Subprojects for the conservation of water supply under Part B.2 (ii) of the Project	5	1
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FDU Subloans for Subprojects under Part B.3 of the Project shall have a maximum repayment period of ten years and a maximum grace period of three years.

2. The FDU Subloans shall finance the following percentages of the total cost of the following Subprojects:

(a) whenever the relevant Subproject is carried out by a Municipality: 32% in the case of Subprojects for low-cost sanitation, drainage, street paving and community facilities, housing and recovery of vacated areas under Part B.1 of the Project and under Part B.2 of the Project;

(b) whenever the relevant Subproject is not carried by a Municipality: 40% in the case of Subprojects under Part B.2 (i) of the Project and Subprojects for street lighting under Part B.1 of the Project, provided that the FDU Subloans for the first six such Subprojects, during the first year of execution of the Project, shall finance 58% of the total cost of such Subprojects; and

(c) up to 90% in the case of Subprojects under Part B.3 of the Project, but not exceeding the debt capacity of the Municipality in question.

3. An annual interest rate equal to the interest rate referred to in Section 2.05 of the Loan Agreement, which is in force on the date of signing the corresponding FDU Subsidiary Loan Agreement, plus not more than 1 percentage point shall be applicable to the adjusted outstanding principal amount of the FDU Subloan.

4. The FDU Subloans shall be denominated and repayable in the currency of the Guarantor and the principal amount of each FDU Subloan will be adjusted every month in accordance with the prevailing rate of inflation in Brazil as measured by the IGP-M, or any other adjustment index satisfactory to the Bank and the Borrower.

5. The FDU Subloans shall be guaranteed: (a) with the proceeds of the sales tax (*Imposto sobre Circulação de Mercadorias e Serviços*) due to the Municipalities and, when necessary, with the proceeds of the share of the Municipalities in the Municipal Participation Fund (*Fundo de Participação dos Municípios*) referred to in Article 159, I, b, of the Guarantor's Constitution, in the case of FDU Subloans made to Municipalities; and (b) by a pledge of revenues and/or assets of the other Beneficiaries, in the case of FDU Subloans made to such Beneficiaries.

6. Each Beneficiary shall undertake the following obligations:

(a) to carry out the Subproject with due diligence and efficiency and in conformity, as applicable, with appropriate administrative, financial, technical, engineering, public utility and environmental practices, and with the applicable provisions of the Operational Manual, and to provide, when applicable, the funds required to complete the financing of the Subproject, provided that, in the case of any Subproject under Part B.3 of the Project, the Beneficiary shall provide funds equivalent to at least 10% of the cost of such Subproject;

(b) to procure the goods, works and services to be financed out of the proceeds of the FDU Subloan as provided in Schedule 4 to this Agreement;

(c) (i) to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the FDU Subloan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by such Beneficiary to replace or repair such goods; and (ii) to cause all goods and services financed out of the proceeds of the FDU Subloan to be used exclusively for the Subproject being carried out by such Beneficiary;

(d) with respect to each Subproject being carried out by each Beneficiary: (i) to furnish to the Borrower, and, if so requested, to make available to the Bank, promptly upon their preparation, the plans, specifications, reports, contract documents and construction and procurement schedules for each such Subproject, and any material modifications thereof or additions thereto; (ii) to maintain records and procedures adequate to record and monitor the progress of each such Subproject (including the cost and the benefits to be derived from each such Subproject), to identify the goods and services financed out of the proceeds of the FDU Subloan, and to disclose their use in each Subproject; and (iii) to enable the authorized representatives of the Bank and the Borrower to visit the facilities and construction sites included in each such Subproject and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents in respect of each such Subproject;

(e) to furnish to the Borrower reports, of such scope and in such detail as the Borrower shall reasonably request and with a periodicity of not more than 3 months, on the progress in the execution of the Subproject being carried out by such Beneficiary;

(f) promptly after completion of the Subproject carried out by such Beneficiary, but in any event not later than three months after the Closing Date or such later date as may be agreed for this purpose between the Bank and the Borrower, to prepare a report satisfactory to the Bank and the Borrower on the execution of such Subproject;

(g) (i) in the case of a Beneficiary other than a Municipality, to take at all times the necessary steps to maintain its existence and its right to carry on operations, and to acquire and retain all rights, powers, privileges and franchises which are

necessary or useful for the purpose of complying with its obligations under the FDU Subsidiary Loan Agreement, or for the efficient conduct of its business and undertaking; (ii) to operate and maintain at all times the plants, machinery, equipment and other property owned or operated by it and promptly make all necessary repairs and renewals thereof, all in accordance with appropriate engineering and public utility practices; and (iii) not sell, lease, transfer or otherwise dispose of any of the property or assets owned or operated by it, if such sale, lease, transfer or other disposition would materially and adversely affect the efficient carrying out of the Subproject;

(h) to make provisions satisfactory to the Bank and the Borrower for insurance against such risks and in such amounts as shall be consistent with appropriate practices;

(i) to take or cause to be taken all such action as shall be necessary to acquire, as and when needed, all such land and rights in respect of land as shall be required for the carrying out of the Subproject;

(j) to maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including records and separate accounts in respect of the Subproject;

(k) (i) to have its records, accounts, and, in the case of Beneficiaries other than Municipalities, its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (ii) to furnish to the Borrower as soon as available, but in any case not later than five months after the end of each such year, (A) in the case of Beneficiaries other than Municipalities, certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors of such scope and in such detail as the Borrower shall have reasonably requested; and (iii) furnish to the Borrower such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Borrower shall from time to time reasonably request;

(l) in the case of CAGECE, to carry out the CAGECE Performance Plan in a timely manner;

(m) to apply cost recovery policies in respect of the investments made under the Subproject as provided in the Operational Manual, except in the case of COGERH which shall apply the policies recommended by the study referred to in Section 3.08 of this Agreement;

(n) in the case of SRH, to carry out the resettlement plan referred to in paragraph 3 (e)(iii) of Schedule 1 to the Loan Agreement, and to take any mitigatory measures that may be recommended by the environmental impact assessment referred to in such paragraph 3 (e) (iii), all in a manner and according to a timetable satisfactory to the Borrower and the Bank; and

(o) in the case of Beneficiaries carrying out Subprojects under Part B of the Project, to carry out, when applicable, the corresponding environmental mitigation plan referred to in paragraph 3 (c) of Schedule 1 to the Loan Agreement in a manner and according to a timetable satisfactory to the Borrower and the Bank.

Part II. FDU Grant Agreements

FDU Grant Agreements shall include, *mutatis mutandis*, the applicable provisions set forth in paragraph 6 of Part I hereof, and shall provide for the following, as applicable:

FDU Grants shall finance: (a) 100% of the total cost of the components of Part A.1 of the Project to be carried out by CAGECE, SEINFRA, SEMACE, SEDURB, COHAB and Municipal Water and Sewerage Companies; (b) 90% of the total cost of the components of Part A.1 of the Project to be carried out by Municipalities; (c) up to 60% of the total cost of Subprojects providing for basic municipal infrastructure under Part B.1 of the Project, and water supply and sewerage under Part B.2 of the Project, to be carried out by Municipalities; (d) 42% of the total cost of the Subprojects providing for street lighting under Part B.1 of the Project, when carried out by COELCE; (e) 42% of the total cost of the Subprojects providing for water supply and sewerage under Part B.2 of the Project, when executed by CAGECE; and (f) 100% of the total cost of Subprojects under Part D.1 of the Project.