

**CONFORMED COPY**

**LOAN NUMBER 7773-BR**

# **Loan Agreement**

**(Rio de Janeiro Sustainable Rural Development Project  
*Projeto de Desenvolvimento Rural Sustentável em Microbacias Hidrográficas-  
Rio Rural*)**

**between**

**STATE OF RIO DE JANEIRO**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated December 14, 2009**

**LOAN AGREEMENT**

Agreement dated December 14, 2009 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and STATE OF RIO DE JANEIRO (“Borrower”). The Bank and the Borrower hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

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

**ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty nine million and five hundred thousand dollars (US\$39,500,000), 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 Governor or its Secretary of Agriculture.
- 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of 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.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project through SEAPPA 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 Events of Suspension consist of the following:
- (a) The Project Implementation Unit's Regulation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower to perform any of its obligations under this Agreement.
- (b) The State Sustainable Rural Development Council Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower to perform any of its obligations under this Agreement.

- (c) The Technical Cooperation Agreements have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower, or respectively EMATER and PESAGRO to perform any of their obligations under this Agreement and/or under the Technical Cooperation Agreements.

4.02. The Additional Event of Acceleration consists of the following, namely that any 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 Legal Matter consists of the following:
  - (a) the Technical Cooperation Agreements have been duly authorized or ratified by the Borrower and by EMATER and PESAGRO, and are legally binding upon all said parties in accordance with their terms; and
  - (b) the Loan has been registered with the Guarantor's Central Bank.
- 5.02. 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 March 9, 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:

Palácio Guanabara  
Rua Pinheiro Machado, s/n  
Rio de Janeiro, RJ, 22238-900  
Brazil  
Facsimile: (55-21) 2334-3773

With copies to:

Secretaria de Estado de Fazenda  
Rua da Alfândega, 42 - 2º andar  
Centro, Rio de Janeiro, RJ, 20070-000  
Brazil  
Facsimile: (55-21) 2334-4535

Ministério do Planejamento, Orçamento e Gestão  
 Secretaria de Assuntos Internacionais  
 Esplanada dos Ministérios, Bloco "K" - 5º andar  
 Brasília, DF, 70040-906  
 Brazil  
 Facsimile: (55-61) 2020-5006 and 2020-5015

SEAPPA – Secretaria de Estado de Agricultura, Pecuária, Pesca e Abastecimento  
 Alameda São Boaventura, 770  
 Fonseca  
 Niterói, RJ, 24120-191  
 Brazil  
 Facsimile: (55-21) 3607-6003 and (55-21) 3607-5398

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 Brasilia, Federative Republic of Brazil, as of the day and year first above written.

STATE OF RIO DE JANEIRO

By/s/ Christino Aureo da Silva

Authorized Representative

INTERNATIONAL BANK FOR  
 RECONSTRUCTION AND DEVELOPMENT

By/s/ Makhtar Diop

Authorized Representative

## SCHEDULE 1

### Project Description

The objective of the Project is to increase the adoption of integrated and sustainable farming systems approaches in specific areas of the Borrower's territory, thus contributing to the higher-order objective of increasing small-scale farming productivity and competitiveness in those areas.

The Project consists of the following components:

#### **Component 1. Supporting Rural Production and Competitiveness**

Provide assistance to rural beneficiaries (Beneficiaries) to operate changes in rural production processes within a framework of market-driven agricultural development focused on sustainable and increased productivity of small farmers, value added and market linkages by working with community groups across local, municipal and regional levels in order to increase organizational and participation skills for project implementation through capacity-building and planning activities by supporting:

**1.1 Pre-investment** activities to strengthen organization and capacity for agricultural productivity through training and planning activities in favor of Beneficiaries to enable them to identify and diagnose, based on their initial status, key production challenges to transition towards more profitable and sustainable farming systems, and elaborate investment proposals with special emphasis on production and competitiveness to gradually overcome those challenges with the support of technical assistance; and

**1.2 Investments** to implement demand-driven activities (Subprojects) through the provision of grants (Grants) aimed at improving sustainable and productive farming systems (Productive Subprojects); compliance with environmental regulation and adoption of agro-ecological and environmentally sound practices (Environmental Subprojects); and erosion control and rehabilitation and maintenance of rural roads (Rural Roads Subprojects).

#### **Component 2. Strengthening Institutional Frameworks**

Improve the Borrower's institutional frameworks supporting market-driven agricultural development by:

**2.1 Strengthening rural institutions and coordination mechanisms** through capacity-building for the Borrower's agencies (Beneficiaries) to more quickly and effectively respond to rural sector demands, providing better services and coordination with other public and private sector stakeholders through, in the short term, the implementation of specific activities (Institutional Subprojects) identified in an institutional sustainability plan (the Institutional Sustainability Plan) and, in the long term, by contributing to the implementation of a national policy in support of territorial development.

**2.2 Improving public and private financial support mechanisms** through the enhancement of linkages between the supply and the demand of financial resources for

sustainable rural development activities by the development of an economic sustainability system, with participation of public and private sector representatives, to: promote awareness of and access to the existing supply of public and private financial support resources to Beneficiaries; promote a better flow of financial resources in favor of Beneficiaries; and facilitate the exchange of information between the parties involved.

**2.3 Undertaking participatory research** to establish a new and effective operational system (the Sustainable Services Research Network System) to conduct, in general, agriculture-related research and induce innovation and interaction between research bodies and stakeholders in the identification, discussion and prioritization of key issues in the agricultural and food sector in the Borrower's territory and, specifically, provide direct support to the implementation of short and medium-term research demands identified by Beneficiaries through a participatory process.

### **Component 3. Project Coordination and Information Management**

Support the Borrower's overall project management and coordination, monitoring and evaluation as well as dissemination of key sustainable rural development information under the Project by financing:

**3.1 Project coordination** through the strengthening of the organizational and operational structure of the Project Implementation Unit; and

**3.2 Information management** through the development and implementation of a management information system that ensures widespread access and adequate information flows to impact stakeholder decision making in support of sustainable rural development as well as through the promotion of the use of digital and other information technology tools among Project stakeholders and Beneficiaries.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Borrower shall, through SEAPPA, SEA, SESDEC, SEEDUC, and SEDEIS, carry out the Project in accordance with the Project Operational Manual, including the Procurement Plan, the Annual Operating Plan, the Environmental Management Framework and the Involuntary Resettlement Framework and other arrangements as per paragraph 7 below, except as the Bank shall otherwise agree, shall not amend or waive any provision of these documents without the Bank's prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail.
2. The Borrower shall maintain, until the completion of the execution of the Project, a Project implementation unit (the Project Implementation Unit) within SEAPPA and with competent staff in adequate numbers with qualifications and experience satisfactory to the Bank and, as applicable, selected in accordance with the provisions of Section III of this Schedule, including the following key staff: a Project coordinator, a technical coordinator, an administrative coordinator, a procurement specialist and a financial management specialist.
3. The Borrower shall cause EMATER and PESAGRO to maintain, until the completion of the execution of the Project, competent staff responsible for the implementation of the Project in adequate numbers with qualifications and experience satisfactory to the Bank and, as applicable, selected in accordance with the provisions of Section III of this Schedule.
4. The Borrower shall maintain, until the completion of the execution of the Project, an advisory council (the State Sustainable Rural Development Council) to convene at least once every semester to discuss Project implementation, and shall promptly submit the minutes of said meetings to the Bank.
5. The Borrower shall create and thereafter maintain, until the completion of the execution of the Project, the committees (the Microcatchment Development Committees) to convene at least once every quarter to approve Subprojects, and shall promptly submit the minutes of said meetings to the Project Implementation Unit.
6. The Borrower shall create and thereafter maintain, until the completion of the execution of the Project, the regional development councils (the Regional Development Councils) and the municipal councils (the Municipal Councils).
7. No later than six months after the Effective Date, the Borrower, through SEAPPA, shall finalize the institutional arrangements containing terms and conditions approved by the Bank as further specified in the model form included in the Project Operational Manual with respectively SEA, SESDEC, SEEDUC, and SEDEIS for the implementation of Components 1, 2 and 3 of the Project and with other partners for the implementation of



Component 3 of the Project. Said arrangements will be incorporated no later than six months after the Effective Date, in the Project Operational Manual and the Borrower shall cause SEAPPA and respectively SEA, SESDEC, SEEDUC, SEDEIS and other partners within their responsibilities to comply with said arrangements until the end of the execution of their respective Components of the Project. Except as the Bank shall otherwise agree, the Borrower shall not amend or waive any provision of these arrangements once incorporated in the Project Operational Manual so as to affect materially and adversely, in the opinion of the Bank, the ability of SEA, SESDEC, SEEDUC, SEDEIS and other partners or the ability of the Borrower to perform any of their obligations under this Agreement or said institutional arrangements. In case of any conflict between the terms of said arrangements and those of this Agreement, the terms of this Agreement shall prevail.

8. The Borrower shall, at least once a year during Project implementation on or about December 1, commencing on the first such date after the Effective Date, prepare and furnish to the Bank a plan (the Annual Operating Plan) for the Project operation during the following twelve months.
9. The Borrower shall: (a) have all the procurement records and documentation for the Subprojects for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles by independent auditors acceptable to the Bank; (b) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such fiscal year, the procurement audit report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (c) furnish to the Bank such other information concerning said procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.

**B. Anti-Corruption**

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

**C. Subprojects**

1. The Borrower shall make Grants to Beneficiaries for Subprojects in accordance with eligibility criteria and procedures acceptable to the Bank as further detailed in the Project Operational Manual, including approval procedures to be followed by the Microcatchment Development Committee.
2. The Borrower shall, through SEAPPA, enter into Grant Agreements appropriate for the carrying out of Components 1 and 2 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 Project Operational Manual, 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 Beneficiaries to use the proceeds of the Grant, or obtain a refund of all or any part of the amount of the Grant then withdrawn, upon the Beneficiaries' failure to perform any of its obligations under the Grant Agreement; and (2) require each Beneficiary to: (a) carry out its Subproject with due diligence and efficiency and in accordance with sound technical, agricultural, 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 Project Operational Manual, the Environmental Management Framework and the Involuntary Resettlement Framework; (b) provide, promptly as needed, the resources required for the purpose; (c) procure the goods, works and services to be financed out of the Grant in accordance with the provisions of this Agreement; (d) maintain procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the 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 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 Subproject, its operation and any relevant records and documents; and (g) prepare and furnish to the Project Implementation Unit and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.
3. The Borrower shall cause SEAPPA to exercise its rights under each 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 ensure that SEAPPA not assign, amend, abrogate or waive any Grant Agreement or any of its provisions.

**D. Technical Cooperation Agreements**

1. To carry out the Project, the Borrower, through SEAPPA, shall maintain and comply with technical cooperation agreements (the Technical Cooperation Agreements) containing terms and conditions approved by the Bank as further specified in the Project Operational Manual with respect to EMATER and PESAGRO. The Borrower shall cause SEAPPA and respectively EMATER and PESAGRO within their responsibilities to comply with said Technical Cooperation Agreements until the end of the execution of their respective Components of the Project.
2. The Borrower, through SEAPPA, shall exercise its rights under the Technical Cooperation Agreements 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 Agreements or any of their provisions.

**E. Safeguards**

**1. Environmental Management**

The Borrower shall, through SEAPPA: (a) implement the Project, and when applicable cause the Subprojects to be implemented, in accordance with the Environmental Management Framework (including provisions for natural habitats, pest management,

forests and chance finding of cultural property); (b) when applicable, furnish to the Bank for its approval a specific environmental assessment for each Subproject; and (c) cause Beneficiaries to carry out the requirements specified by such specific environmental assessment in accordance with its terms.

## **2. Involuntary Resettlement**

The Borrower shall through SEAPPA: (a) implement the Project and, when applicable cause the Subprojects to be implemented, in accordance with the provisions of the Involuntary Resettlement Framework; (b) when applicable, furnish to the Bank for its approval an specific involuntary resettlement plan for each Subproject; and (c) cause Beneficiaries to carry out the requirements specified by such specific involuntary resettlement plan in accordance with its terms.

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

### **A. Project Reports**

1. The Borrower, through the Project Implementation Unit, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the performance indicators set forth in the Project Operational Manual. Each Project Report shall cover the period of one calendar semester, 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 six months after the Closing Date.

### **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 calendar 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, commencing with the fiscal year in which the first withdrawal was made for the Project. 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 Services (Other than Consultants' Services).** All goods, works and services (other than 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 Services (Other than Consultants' Services)**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and services (other than consultants' services) shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods, Works and Services (Other than Consultants' Services).** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and services (other than consultants' services). The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding, subject to the following additional procedure, namely, that the bidding documents shall be acceptable to the Bank.
(b) Shopping
(c) Direct Contracting
(d) Goods, works and services (other than consultants' services) under Subprojects may be procured in accordance with the procedures set forth in the Procurement Plan for community participation.

#### **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.

<b>Procurement Method</b>
(a) Selection under a Fixed Budget
(b) Least-Cost Selection
(c) Selection Based on the Consultant's Qualifications
(d) Single-Source Selection
(e) Procedures set forth in Paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(f) 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.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be financed (inclusive of Taxes)</b>
(1) Goods, works, services (other than consultants' services), consultant services and training under the Project (except as covered by Category (2) below)	18,711,250	100%
(2) Goods, works, services (other than consultants' services), consultant services for Subprojects under	20,690,000	100% of amounts disbursed as Grants for such goods, works, services (other than

Components 1 and 2 of the Project		consultants' services), and consultant services
(3) Front-end Fee	98,750	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
<b>TOTAL AMOUNT</b>	<b>39,500,000</b>	

3. For the purposes of this table, the term "training" means expenditures (other than for consultants' services) incurred in connection with the carrying out of training, seminars, and workshops under the Project, including the reasonable travel and accommodation cost and per-diem of the trainers and trainees, training materials, rental costs and tuitions.

**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 \$ 5,925,000 equivalent may be made for payments made within twelve months prior to such date for Eligible Expenditures under Categories (1) and (2).
2. The Closing Date is November 30, 2015. The Bank shall 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.

**Section V. Other Undertakings**

1. The Recipient shall, no later than six months after the Effective Date, hire the independent auditors needed to comply with Section II.B.3. above, under terms of reference and with qualifications and experience satisfactory to the Bank and in accordance with the provisions of Section III above.
2. By November 30, 2012, or such other date as the Bank shall agree upon, the Borrower shall:
  - (a) carry out jointly with the Bank, a mid-term review of the implementation of operations under the Project (Midterm Review). The Midterm Review shall cover the progress achieved in the implementation of the Project; and
  - (b) following such Midterm Review, act promptly and diligently to take any corrective action as shall be recommended by the Bank.
3. By January 31, 2013, the Borrower, through SEAPPA, shall finalize, in form and substance satisfactory to the Bank, the transfer of road equipment and machinery acquired under the Project to selected consortia of municipalities in the Borrower's territory as further specified in the Project Operational Manual.

**SCHEDULE 3****Amortization Schedule**

1. Subject to the provisions of paragraph 2 of this Schedule, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each April 15 and October 15, the first installment to be payable on the ninth (9th) Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount and the last installment to be payable on the forty-sixth (46th) Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount. Each installment except for the last one shall be equal to one-38th (1/38) of the Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of the Disbursed Amount.
2. If any one or more installments of principal of the Disbursed Amount would, pursuant to the provisions of paragraph 1 of this Schedule, be payable after April 15, 2039, the Borrower shall also pay on such date the aggregate amount of all such installments.
3. The Bank shall notify the Loan Parties of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for the Disbursed Amount.
4. Notwithstanding the provisions of paragraphs 1 through 3 of this Schedule, in the event of a Currency Conversion of all or any portion of a Disbursed Amount 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.

**APPENDIX****Section I. Definitions**

1. “Annual Operating Plan” means an annual operating plan to be prepared by the Borrower on or about December 1 each Project year as per Section I. A. 8 of Schedule 2 to this Agreement.
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. “Beneficiaries” means an individual or group of individuals living in a rural area, a small farmer, an agricultural producer or rural community organization, a rural cooperative, a rural municipality in the Borrower’s territory or a Borrower’s agency with a legal personality in accordance with the Borrower’s and the Guarantor’s law, whose Subprojects have been found eligible in accordance with the criteria set forth in the Project Operation Manual, have applied for financing and have received or are to receive a Grant under a Grant Agreement to be executed under Components 1 and 2 of the Project.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “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.
6. “EMATER” means *Empresa de Assistência Técnica e Extensão Rural do Estado do Rio de Janeiro*, the Borrower’s agency for rural extension as established and operating under the Borrower’s Decree No. 564 dated January 26, 1976.
7. “Environmental Management Framework” means the Borrower’s document dated October 8, 2008, published and available to the public on the website [http://www.microbacias.rj.gov.br/biblioteca\\_projeto.htm](http://www.microbacias.rj.gov.br/biblioteca_projeto.htm) which contains the environmental principles and policies that shall apply to the implementation of the Project including, when applicable, preparation and carrying out of any Subproject.
8. “Environmental Subprojects” means eligible subprojects aimed at improving the adoption of agro-ecological and environmentally-sound practices as endorsed by the Microcatchment Development Committee and as approved by the Borrower through the Project Implementation Unit and the Bank in accordance with relevant provisions of the Project Operational Manual and to be partly financed with a Grant under a Grant Agreement for the activities set forth in Component 1.2 of the Project and to be carried out by Beneficiaries within the territory of Borrower.
9. “Grants” means grants to be made by the Borrower to Beneficiaries for the financing of eligible Subprojects in the Borrower’s territory to cover part of the capital cost of said Subprojects.



10. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
11. “Grant Agreements” means agreements entered into between the Borrower, through the Project Implementation Unit, and a Beneficiary as referred to in Section I.C.2 of Schedule 2 to this Agreement, for the financing and implementation of Subprojects under Components 1.2 and 2.1 of the Project.
12. “Institutional Subprojects” means eligible subprojects aimed at effectively responding to rural sector demands, providing better services and coordinating with other public and private sector stakeholders as endorsed by the State Sustainable Rural Development Council and as approved by the Bank for the activities set forth in Component 2.1.
13. “Institutional Sustainability Plan” means a document found satisfactory in form and substance to the Bank, called *Plano de Sustentabilidade Institucional* to be prepared by the Borrower under Component 2.1 of the Project in accordance with provisions of the Project Operational Manual to design strategies and identify Subprojects to strengthen the capacity of SEAPPA and its agencies.
14. “Involuntary Resettlement Framework” means the Borrower’s document dated October 8, 2008, published and available to the public on the website [http://www.microbacias.rj.gov.br/biblioteca\\_projeto.htm](http://www.microbacias.rj.gov.br/biblioteca_projeto.htm), which contains the resettlement principles and policies that shall apply to the implementation of the Project including, when applicable, preparation and carrying out of any Subproject.
15. “Microcatchment Development Committees” means collectively all or any of the committees to be established in each microcatchment in the Borrower’s territory (*Comitê Gestor da Microbacia*) in accordance with the Project Operational Manual in charge of the implementation and follow-up of the Project at the local level, including the selection and approval of Subprojects.
16. “Municipal Councils” means *Conselhos Municipais de Desenvolvimento Rural Sustentável* or any other entity in charge of Project follow-up in the Borrower’s territory at the municipal level, as operating in accordance with the Project Operational Manual.
17. “PESAGRO” means *Empresa de Pesquisa Agropecuária do Estado do Rio de Janeiro*, the Borrower’s State Agricultural Research Enterprise as established and operating under the Borrower’s Decree No 75 dated January 29, 1975.
18. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
19. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated June 2, 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.

20. “Productive Subprojects” means eligible subprojects aimed at improving sustainable and productive farming systems as endorsed by the Microcatchment Development Committee and as approved by the Borrower through the Project Implementation Unit and the Bank in accordance with relevant provisions of the Project Operational Manual and to be partly financed with a Grant under a Grant Agreement for the activities set forth in Component 1.2 of the Project and to be carried out by Beneficiaries within the territory of Borrower.
21. “Project Implementation Unit” means the Project implementation unit referred to in Section I.A.2 of Schedule 2 to this Agreement, established within the administrative structure of SDS in charge of the daily implementation of the Project as further detailed in the Project Operational Manual.
22. “Project Implementation Unit’s Regulation” means the Borrower’s Decree No. 41850, dated May 5, 2009, satisfactory to the Bank.
23. “Project Operational Manual” means the operational manual for the Project, satisfactory to the Bank adopted by the Borrower through SEAPPA Resolution No. 66 dated May 14, 2009, which contains, *inter alia*: (i) the terms of reference, functions and responsibilities for the personnel of the Project Implementation Unit in charge of daily Project coordination and monitoring; (ii) the procedures for procurement of works, goods, services (other than consultants’ services) and consultants’ services for the Project and for the Subprojects, as well as for financial management and audits (i.e. financial audit and procurement audit) of the Project and of the Subprojects; (iii) flow and disbursement arrangements of Project funds; (iv) the eligibility criteria for the Subprojects, their selection and approval processes, the Restrictive List, as well as model forms for Grant Agreements; (v) the Annual Operating Plan for the first year of the Project; (vi) the Environmental Management Framework and the Involuntary Resettlement Framework; (vii) the conditions for the transfer of road equipment and machinery (*patrulha mecanizada*) from SEAPPA to selected consortia of municipalities in the Borrower’s territory as per paragraph V 3 of Schedule 2 to this Agreement; and (viii) the model form for institutional arrangements, and subsequent institutional arrangements as per paragraph I A 7 of Schedule 2 to this Agreement, with SEA (for the implementation of Components 1 and 2 of the Project), SESDEC (for the implementation of Components 1 and 2 of the Project), SEEDUC (for the implementation of Components 1, 2 and 3 of the Project), SEDEIS (for the implementation of Component 2 of the Project); and other partners for the implementation of Component 3 of the Project.
24. “Regional Development Councils” means *Conselhos Regionais de Desenvolvimento Rural Sustentável* in charge of Project follow-up in the Borrower’s territory at the regional or inter-municipal level, to be created by the Borrower in accordance with the Project Operational Manual.
25. “Restrictive List” means a list of activities to be annexed to the Project Operational Manual and detailing all the types of Subprojects which cannot benefit from a Grant under the Project.
26. “SDS” means *Superintendência de Desenvolvimento Sustentável*, the Borrower’s superintendence on sustainable development within the administrative structure of SEAPPA, as established and operating under the Borrower’s Decree No. 40514, dated January 9, 2007.

27. “SEA” means *Secretaria de Estado do Ambiente*, the Borrower’s Secretariat for environment, as established and operating under the Borrower’s Decree No. 40486, dated January 1, 2007.
28. “SEAPPA” means *Secretaria de Estado de Agricultura, Pecuária, Pesca e Abastecimento*, the Borrower’s Secretariat for agriculture, fisheries and rural development, as established and operating under the Borrower’s Decree No. 40514, dated January 9, 2007.
29. “SEDEIS” means *Secretaria de Estado de Desenvolvimento Econômico, Energia, Indústria e Serviços*, the Borrower’s Secretariat for economic development, energy, industry, and services, as established and operating under the Borrower’s Decree No. 40486, dated January 1, 2007.
30. “SEEDUC” means *Secretaria de Estado de Educação*, the Borrower’s Secretariat for education, as established and operating under the Borrower’s Decree No. 40486, dated January 1, 2007.
31. “SESDEC” means *Secretaria de Estado de Saúde e Defesa Civil*, the Borrower’s Secretariat for health and civil defense, as established and operating under the Borrower’s Decree No. 40486, dated January 1, 2007.
32. “State Sustainable Rural Development Council” means a council (*Conselho Estadual de Desenvolvimento Rural Sustentável*) created through the Borrower’s Decree No. 27025, dated August 25, 2000, in charge of the general oversight of the Project, including the approval of the Annual Operating Plans.
33. “State Sustainable Rural Development Council Legislation” means the Borrower’s *Deliberação* No. 01, dated March 27, 2001.
34. “Subprojects” means collectively Productive Subprojects, Environmental Subprojects, Rural Roads Subprojects and Institutional Subprojects.
35. “Rural Roads Subprojects” means eligible subprojects aimed at improving the erosion control and rehabilitation and maintenance of rural roads as endorsed by the Microcatchment Development Committee and as approved by the Borrower through the Project Implementation Unit and the Bank in accordance with relevant provisions of the Project Operational Manual and to be partly financed with a Grant under a Grant Agreement for the activities set forth in Component 1.2 of the Project and to be carried out by Beneficiaries within the territory of Borrower.
36. “Sustainable Services Research Network System” means *Sistema de Pesquisa, Inovações, Tecnologias e Serviços Sustentáveis em Rede*, the Borrower’s network system for research, innovation, technologies and sustainable services to be established under the Project in the Borrower’s territory to facilitate the adoption by small farmers of sustainable and innovative technologies to improve productive systems and overcome value chains bottlenecks .

37. “Technical Cooperation Agreements” means all or any of the agreements referred to in Section I. D of Schedule 2 to this Agreement and executed between the Borrower, through SEAPPA, and respectively EMATER (for the implementation of Components 1, 2 and 3 of the Project and PESAGRO (for the implementation of Components 1 and 2 of the Project).

## **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.”