

CONFORMED COPY

LOAN NUMBER 2983 BR

(Water Project for Municipalities
and Low-Income Areas)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CAIXA ECONOMICA FEDERAL-CEF

Dated December 30, 1988

LOAN NUMBER 2983 BR

LOAN AGREEMENT

AGREEMENT, dated December 30, 1988, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CAIXA ECONOMICA FEDERAL - CEF (the Borrower).

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;

(C) the Project will be carried out by the Project Companies (as such term is hereinafter defined), and Sociedade de Abastecimento de Agua e Saneamento S.A. (SANASA) with the Borrower's assistance and, as part of such assistance the Borrower will make available to the Project Companies and SANASA the proceeds of the Loan as

provided in this 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 and in the Project Agreement of even date herewith between the Bank and the Municipality of Campinas (CAMPINAS) and (SANASA).

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this 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) "Campinas" means the Municipality of Campinas, State of Sao Paulo;
- (b) "Campinas Project Agreement" means the agreement between the Bank and Campinas and SANASA of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Campinas Project Agreement;
- (c) "Project Companies" means collectively the Companhias Estaduais de Saneamento Basico referred to in Article 9 of Brazil's Decree No. 82.587, of November 6, 1978, as amended to this date, formed by the States, or by the Guarantor in the case of the Federal District and Territories, and entities owned or operated by Municipalities which provide or will provide water supply and sanitation services, which have been selected or may be selected by agreement between the Borrower and the Bank for the purpose of executing one or more Sub-projects in accordance with the provisions of this Agreement; "Project Company" means any one of them, and when such term is used in reference to one State or Municipality, it shall mean the Project Company which operates in such State or Municipality, and "Eligible Project Company" means a Project Company which meets the eligibility criteria set forth in Schedule 6 to this Agreement and has been accepted by the Bank for participating in the Project;
- (d) "States" means collectively the federative units of the Guarantor and its Federal District and Territories, and "State" means any one of them;
- (e) "Project Sponsors" means collectively the States or the Municipalities in which a Project Company is located and which are providing financial assistance to such Project Company for purposes of the Project, and "Project Sponsor" means any one of them;
- (f) "WS Subproject" means a specific water supply or sewerage project consisting of one or more of the following activities: (i) the construction, expansion or improvement of water supply or sewerage systems in the low-income peripheral areas of cities of more than 50,000 inhabitants; (ii) provision of technical assistance for the engineering, design and construction supervision of WS Subprojects and complementary sanitary installation; and (iii) provision of technical assistance, training, equipment and materials for health community promotion programs and technical, financial and institutional development programs for Project Companies;
- (g) "SD Subproject" means a specific project consisting of the construction, expansion or improvement of complementary sanitary installations such as in-house sanitary installations, solid waste collection and storm drainage in the low-income peripheral areas of cities of more than 50,000 inhabitants;
- (h) "Eligible Subproject" means a WS Subproject or a SD Subproject which meets the eligibility criteria set forth in Schedule 6 to this Agreement and has been approved by the Borrower and the Bank for financing under the Project;

(i) "CTF" means an agreement entered or to be entered into between the Borrower and a Project Sponsor and a Project Company pursuant to Section 3.01 (b) (i) of this Agreement for purposes of financing the execution of an Eligible Subproject;

(j) "Sub-loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan and its own resources under a CTF;

(k) "Campinas-SANASA Agreement" means the loan agreement to be entered into between Campinas and SANASA pursuant to Section 2.01 (b) of the Campinas Project Agreement;

(l) "SANASA Agreement" means the loan agreement entered into between the Borrower, SANASA and Campinas pursuant to Section 3.01 (b) (ii) of this Agreement and Section 2.04 (a) of the Campinas Project Agreement, for purposes of financing the execution of Part B of the Project;

(m) "Cruzado" means the currency unit of the Guarantor;

(n) "Tariff Law" means the Guarantor's Law No. 6,528 dated May 11, 1978, as amended to the date of this Agreement;

(o) "OTN" means National Treasury Bonds "Obrigacoes do Tesouro Nacional", the transferable bonds issued by the Guarantor's Treasury;

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

(q) "Financial Recuperation Plan" means the financial plan for each Project Company which is not in full compliance with the tariff law referred to in paragraph A of Schedule 6 to this Agreement;

(r) "IBGE" means Fundacao Instituto Brasileiro de Geografia e Estatistica, the Brazilian Institute of Geography and Statistics;

(s) "PLANASA" means Plano Nacional de Saneamento, a water supply and sewerage program for Brazil, which is being carried out by the Borrower;

(t) "FSRMM" means Adicional ao Frete Para a Renovacao da Marinha Mercante-AFRMM, the Guarantor's Freight Surcharge for the Renewal of the Merchant Marine 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 part, after January 1, 1988; and

(u) "Minimum Wage" means Salario Minimo de Referencia, the national minimum wage referred to in the Guarantor's Decree Law No. 2351 of August 7, 1987, published in Diario Oficial de Uniao on August 10, 1987, as such minimum wage may be amended from time to time by the Guarantor.

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, an amount in various currencies equivalent to eighty million dollars (\$80,000,000).

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 account in its Central Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1994 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower 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 per annum for each Interest Period equal to one-half of one percent (1/2 of 1%) per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

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

Section 2.06. Interest and other charges shall be payable semiannually on April 15 and October 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.

ARTICLE III

Execution of the Project

Section 3.01. (a) 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 carry out Part A.2 of the Project and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project and shall cause the Project Companies and SANASA under the CTFs and the SANASA Agreement, respectively, to carry out Parts A.1 and B of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and ecological public utility practices and to provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation to, and as part of, the foregoing the Borrower shall: (i) enter into agreements satisfactory to the Bank (the CTFs) with each Project Company and the respective Project Sponsor, for purposes of making available as subloans the proceeds of the Loan allocated to Part A.1 of the Project and the Borrower's own resources, to finance up to 75% of the reasonable cost of works, goods and services utilized by the Project Company in the carrying out of an Eligible Sub-project; and (ii) enter into an agreement satisfactory to the Bank (the SANASA Agreement) with SANASA and Campinas for purposes of making available as a loan, the proceeds of the Loan allocated to Part B of the Project and the Borrower's own resources, to finance up to 50% of the reasonable cost of works, goods and services utilized by SANASA in the carrying out of Part B of the Project;

(c) Each CTF shall contain, inter alia, the terms and conditions set forth in Schedule 7 to this Agreement;

(d) The Borrower shall duly perform and cause the Project Sponsors, the

Project Companies, SANASA and Campinas to duly perform all of their obligations under the CTFs and the SANASA Agreement, respectively. Except as the Bank shall otherwise agree, the Borrower shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the CTFs or the SANASA Agreement, or any provision thereof.

Section 3.02. 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 5 to this Agreement.

Section 3.03. The Borrower shall cause the Project Companies to carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A.1 of the Project and SANASA in respect of Part B of the Project.

Section 3.04. The Borrower shall, and cause the Project Sponsors and the Project Companies to, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of their respective obligations under this Agreement, the SANASA Agreement, under the CTFs and other matters relating to the purposes of the Loan.

Section 3.05. (a) The Borrower shall furnish to the Bank for approval the Subprojects to be financed under Part A.1 of the Project.

(b) Unless the Bank shall otherwise agree, no Subproject shall be furnished to the Bank for approval after June 30, 1991.

Section 3.06. Not later than June 30 and December 31 each year, the Borrower shall prepare and furnish to the Bank, a report of such scope and detail as the Bank shall reasonably request on the progress of the execution of Part A.1 of the Project.

ARTICLE IV

Particular Covenants

Section 4.01. The Borrower shall carry out its operations and conduct its affairs in accordance with sound administrative and financial standards and practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. (a) The Borrower shall maintain separate records and accounts adequate to reflect in accordance with sound accounting practices its financial condition and operations in respect of the Project, including consolidated Project Accounts (the Project Accounts) reflecting the operations, resources and expenditures of the Project Companies in respect of Part A.1 of the Project and SANASA in respect of Part B of the Project.

(b) The Borrower shall:

(i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the Project Accounts 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: (A) certified copies of its financial statements of such year as so audited, and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said accounts and financial statements as well as the audit thereof and said records, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals are requested from the Loan Account on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;
- (ii) retain, or cause the Project Companies and SANASA to retain, until one year after the Closing Date, certified copies of all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable, or cause the Project Companies and SANASA to enable, the Bank's representatives to examine such records; and
- (iv) ensure that such separate accounts are included in the annual audits 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 (k) of the General Conditions, the following additional events are specified, provided, however, that if any event other than those referred to in paragraphs (c) or (e) of this Section shall have occurred and be continuing and relate only to SANASA, Campinas, or one or more of the Project Companies or Project Sponsors, the suspension of the Borrower's right to make withdrawals from the Loan Account may be limited by the Bank to withdrawals in respect of Project expenditures incurred by SANASA or the respective Project Company or Project Companies:

- (a) Campinas or SANASA have failed to perform any of their obligations under the Campinas Project Agreement;
- (b) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Campinas or SANASA will be able to perform its obligations under the Campinas Project Agreement;
- (c) Decree No. 95.572 of December 22, 1987 of the Guarantor shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement;
- (d) any authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SANASA or for the suspension of its operations;
- (e) the Tariff Law shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the financial condition of one or more Project Companies;
- (f) any Project Sponsor or any Project Company shall have failed to perform any of its respective obligations under any CTF to which it is a party;
- (g) any authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any Project Company or for the suspension of its operations and no other alternatives satisfactory to the Bank have been established or provided to ensure the timely execution of the respective Eligible Subproject or the performance of the obligations set forth in the respective CTF;
- (h) the statutes of any Project Company shall have been amended so as to materially and adversely affect the carrying out of the Project or the operations or

financial condition of any such Project Company;

(i) an event shall have occurred or any action shall have been taken, which shall materially and adversely affect the carrying out of Part A.1 of the Project by the Project Companies, or the financial condition or operations of, or the setting or adjustment of rates for water supply and sewerage services charged by, any Project Company;

(j) an extraordinary situation shall have arisen which shall make it improbable that any Project Company or Project Sponsor which are parties to any CTF shall be able to perform its respective obligations or exercise its respective rights thereunder;

(k) any action shall have been taken which shall materially and adversely affect the performance of any obligations of the Project Sponsor under any CTF; and

(l) any Project Company shall have failed to carry out its Financial Recuperation Plan.

Section 5.02. Pursuant to Section 7.01 of the General Conditions, the following additional events are specified pursuant to paragraph (h) thereof:

(a) any of the events specified in paragraphs (c) or (d) or (e) or (g) of Section 5.01 of this Agreement shall occur; and

(b) any events specified in paragraphs (a) or (f) or (h) or (i) or (k) or (l) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty 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) that the Loan Agreement has been duly registered with Banco Central do Brasil; and

(b) that the SANASA Agreement and the Campinas-SANASA Agreement have been executed on behalf of the Borrower and Campinas and SANASA and Campinas and SANASA, respectively.

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) that the Campinas Project Agreement and the Campinas-SANASA Agreement have been duly authorized or ratified by Campinas and SANASA, and are legally binding upon Campinas and SANASA in accordance with their terms;

(b) that the SANASA Agreement has been duly authorized or ratified by the Borrower and Campinas and SANASA, and is legally binding upon the Borrower and Campinas and SANASA in accordance with its terms; and

(c) that the Loan Agreement has been duly registered with Banco Central do Brasil.

Section 6.03. The date March 30, 1989 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 President 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:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Borrower:

Caixa Economica Federal
Setor Bancario Sul
Quadra 4, Lote 34
CEP 70070, Brasilia, D.F.
Brasil

Telex:

(061) 1365
(061) 3864

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/ Rainer B. Steckhan

Acting Regional Vice President
Latin America and the Caribbean

CAIXA ECONOMICA FEDERAL-CEF

By /s/ Jose Humberto Lordello dos Santos Souza

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:

Amount of the Loan Allocated	% of
---------------------------------	------

Category	(Expressed in Dollar Equivalent)	Expenditures to be Financed
(1) Goods (other than computers or vehicles), works and services under Part A.1 of the Project		
(a) WS sub-projects	44,330,000	67% of the amounts disbursed under Sub-loans
(b) SD sub-projects	5,000,000	
(2) Consultants' Services		
(a) Under Part A.2 (a) of the Project	270,000	67%
(b) Under Part A.2 (b) of the Project	400,000	67%
(3) Goods (other than computers or vehicles), works and services under Part B of the Project	30,000,000	66% of the amounts disbursed by the Borrower to SANASA
<hr/>		
TOTAL	80,000,000	

2. 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 exceeding the equivalent of \$8,000,000, may be made on account of payments made for expenditures before that date but after July 1, 1987; and

(b) expenditures under a Subproject unless:

(i) such Subproject meets the eligibility criteria set forth in Schedule 6 to this Agreement and has been approved by the Borrower and the Bank for financing under the Project;

(ii) the Bank has received evidence satisfactory to the Bank showing that the Project Company and the Project Sponsor have entered into a valid and binding CTF with the Borrower with regard to such Subproject; and

(iii) in the case of a SD Subproject that such Subproject is related to a WS Subproject being approved or already approved by the Bank in respect of such Project Company; provided, however, that no withdrawals shall be made for expenditures under a Subproject until at least 3 subprojects shall have met the requirements set forth in this paragraph (b).

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to improve the health and environmental conditions of the extreme low-income population living in the peripheral areas of medium-, and large-size cities, by providing water, waste water services, and in-house

sanitary installations, and by improving solid waste collection and by drainage; (b) to satisfy urgent demands for drinking water in the city of Campinas, including service to low-income consumers; (c) to assist the Borrower in establishing an appropriate system to finance and implement Subprojects in the peripheral urban areas and to extend PLANASA to autonomous municipalities; and (d) to provide efficiency in the utilization of financial resources by the application of appropriate Subproject selection criteria, community involvement in the project cycle and the use of low-cost technologies.

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: Improvement of water supply, sewerage and sanitation services in low-income urban areas

1. (a) Execution of Eligible Subprojects in the territories of Project Sponsors; and (b) provision of technical assistance and training to Project Companies for the preparation and execution of Subprojects and in management, financial administration and water and sewerage systems operation and maintenance.

2. (a) A program of studies aimed at developing: (i) methodologies to lead integrated sanitation projects in low-income urban areas; and (ii) appropriate low-cost water and waste disposal technologies for low-income urban areas;

(b) A technical assistance program to improve the Borrower's capabilities to evaluate and supervise sanitation projects.

Part B: Improvements to the City of Campinas' Water Supply System

A program to improve and expand the existing water supply system including: (i) the construction of a 2.4 cubic meters per second water treatment plant; (ii) the provision and installation of seven large pipelines with a total extension of 29 kilometers; (iii) the construction of six water reservoirs with a total capacity of 28,600 cubic meters; and (iv) a program for reduction of unaccounted-for-water, including the installation of production and consumption metering, water distribution system survey and mapping, a water leak control program, and the improvement of SANASA's commercial system.

* * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each April 15 and October 15 beginning October 15, 1993 through April 15, 2003	\$4,000,000

* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
percentage	The interest rate (expressed as a per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	.20
More than three years but not more than six years before maturity	.40
More than six years but not more than 11 years before maturity	.73
More than 11 years but not more than 13 years before maturity	.87
More than 13 years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 Category, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

(i) 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

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any 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, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account and immediate cancellation.

SCHEDULE 5

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 1985 (the Guidelines).
2. To the extent technically possible, contracts for the purchase of goods shall be grouped in lots of not less than \$500,000 equivalent.

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, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto, 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:

(1) 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.

(2) 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: (i) to the evaluated bid price of goods to be imported in each group B bid an amount equal to the smaller of: (A) 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 (B) 15% of the c.i.f. bid price of such goods; and (ii) to the ex-factory bid price of goods supplied domestically offered in each group B bid an amount equal to the smaller of: (A) 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 (B) 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

Contracts for civil works estimated to cost less than the equivalent of \$2,000,000 and contracts for goods estimated to cost less than the equivalent of \$250,000, may be procured on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory 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 the first two contracts for goods and the first two contracts for civil works to be procured as provided in Part A and Part C of this Schedule and to each contract for goods estimated to cost the equivalent of \$1,000,000 or more and each contract for civil works estimated to cost the equivalent of \$3,000,000 or more, 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, such 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 4 to the Loan Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with the provisions of this Agreement and the Campinas Project Agreement.

2. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist the Borrower, the Project Companies and SANASA in the execution of the Project, the Borrower shall, and shall cause the Project Companies and SANASA to employ 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.

Part E: Other

For purposes of this Schedule and the Guidelines, the term "customs duties and other import taxes" includes the FSRMM.

SCHEDULE 6

Eligibility Criteria

A. Project Companies must meet the following criteria to be allowed to participate in the execution of Part A.1 of the Project.

Provide evidence satisfactory to the Bank and the Borrower: (i) that they either (A) are in full compliance with the provisions of the Tariff Law, or (B) have formally approved a financial recuperation plan, satisfactory to the Bank and the Borrower, which will result in full compliance by the Project Company with the provisions of the Tariff Law not later than December 31, 1989; and (ii) that they have established

adequate separate records and accounts for purposes of the Project and have made arrangements to have such records and accounts and their financial statements audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank and the Borrower.

B. Specific water supply, sewerage and sanitation projects must meet the following criteria in order to be approved as Eligible Sub-projects under Part B of the Project:

The Borrower must furnish evidence, satisfactory to the Bank, showing that:

(i) WS Subprojects are located in peripheral areas of cities with a population of more than 50,000 inhabitants according to the last available official census carried out by IBGE in 1980;

(ii) at least 40% of the families to be served by the proposed sub-projects have an income equivalent to one minimum wage, in force in the area, or less;

(iii) the proposed Sub-project constitutes the least cost technical solution for providing water, sewerage, sanitation or drainage services;

(iv) the estimated cost per capita of the proposed Sub-project is less than the equivalent of 12 OTN in the case of water and 17 OTN in the case of sewerage services; and

(v) the final beneficiaries of the proposed Subproject are able to pay the water and sewerage services to be provided in accordance with the Project Company's current rates.

SCHEDULE 7

Obligations of the Project Sponsors and Project Companies under CTFs

A. Obligations of the Project Sponsors

(1) Each Project Sponsor shall covenant and warrant the Eligible Subprojects to be carried out under the Project in such State or Municipality of paramount importance to its economic development and the social welfare of its inhabitants, and that it will fully support the implementation of the Project by cooperating with the respective Project Company in the execution of such Eligible Sub-projects by providing, promptly as needed, the funds (additional to the proceeds of the CTF), facilities, services and other resources on its part required to enable such company to carry out the Eligible Subprojects and for the operation and maintenance of the facilities and services included in such Eligible Subprojects.

(2) Each Project Sponsor shall take, or cause its agencies and instrumentalities to take, all such action as shall be required to assist the Project Company in the performance of the obligations of such Project Company set forth in this Schedule.

B. Obligations of the Project Companies

(1) The Project Companies shall carry out Part A.1 of the Project all with due diligence and efficiency and in conformity with appropriate administrative, financial, ecological and public utility practices.

(2) In order to assist in the carrying out of Eligible Sub-projects under Part A.1 of the Project, each Project Company shall, when required, employ qualified and experienced consultants, such consultants to be selected in accordance with principles and procedures satisfactory to the Bank, as provided in Schedule 5 to the Loan Agreement; the terms and conditions of each contract with any such consultants, which is to be financed out of the proceeds of the Loan, shall be satisfactory to the Bank and the Borrower.

(3) (a) Each Project Company shall, with respect to the Part of the Project to be carried out by each such Project Company, undertake to insure, or make adequate

provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan 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 Project Company to replace or repair such goods.

(b) Except as the Borrower shall otherwise agree, each Project Company shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for Eligible Sub-projects being carried out by each such Project Company.

(4) (a) With respect to each Eligible Subproject being carried out by each Project Company, each such Project Company shall furnish to the Borrower and, if so requested, make available to the Bank, promptly upon their preparation, the plans, specifications, reports, contract documents and construction and procurement schedules for each such Eligible Subproject, and any material modifications thereof or additions thereto.

(b) Each Project Company shall, with respect to each Eligible Subproject being carried out by each such Project Company, maintain records and procedures adequate to record and monitor the progress of each such Eligible Subproject (including the cost and the benefits to be derived from each such Eligible Subproject), to identify the goods and services financed out of the proceeds of the Loan, and to disclose their use in each Eligible Subproject.

(c) Each Project Company shall enable the authorized representatives of the Bank and the Borrower to visit the facilities and construction sites included in each Eligible Subproject and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents in respect of each Eligible Subproject.

(5) Each Project Company shall furnish to the Borrower, two months after each semester, a progress report containing all such information as the Bank shall reasonably request through the Borrower concerning each Eligible Subproject carried out or being carried out by it, its cost and, where appropriate, the benefits and results to be derived from it, the expenditure of the proceeds of the Loan, the goods and services financed out of such proceeds, and the monitoring indicators.

(6) Promptly after completion of the Project, 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, each Project Company shall prepare a report satisfactory to the Bank and the Borrower on the execution of the Part of the Project carried out by each Project Company.

(7) Each Project Company shall maintain a system of monitoring indicators satisfactory to the Bank and the Borrower.

(8) Each Project Company shall select each Subproject being furnished to the Borrower for approval in a manner consistent with the criteria set forth in Schedule 6 to this Agreement and shall ensure that such criteria are being consistently applied by each such Project Company in the carrying out of each Eligible Subproject which each such Project Company is carrying out under the Project.

(9) Each Project Company shall at all times manage its affairs, maintain its financial position, plan its future expansion and conduct its business and undertaking, all in accordance with appropriate business, financial and public utility practices, and under the supervision of experienced and competent management assisted by adequate and competent staff.

(10) Each Project Company shall: (a) at all times take 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 this Schedule or for the efficient conduct of its business and undertaking;

(b) at all times operate and maintain 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

(c) 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 disposition would materially and adversely affect the efficient carrying out of the Project.

(11) Each Project Company shall make provisions satisfactory to the Bank and the Borrower for insurance against such risks and in such amounts as shall be consistent with sound public utility practices.

(12) Each Project Company shall maintain records adequate to reflect, in accordance with appropriate accounting practices consistently applied, its operations and financial condition.

(13) Each Project Company shall: (i) have its accounts and 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 Borrower and the Bank; (ii) furnish through the Borrower to the Bank as soon as available, but in any case not later than five months after the end of each such year, (A) certified copies of such 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 Bank shall have reasonably requested, which report shall include a statement of compliance during each such year by each Project Company of the financial covenants contained in this Schedule; and (iii) furnish through the Borrower to the Bank such other information concerning the accounts and financial statements of each such Project Company and the audit thereof as the Bank shall from time to time reasonably request.

(14) Each Project Company shall take all such action (including timely action with respect to the filing of appropriate applications and with respect to the setting or adjustment of each Project Company's rates for its water supply and sewerage services) as shall be necessary in each calendar year for each Project Company's revenues from such services, together with all other operating revenues of each Project Company, to reach not less than the sum of each Project Company's operating costs, depreciation charges and debt service, in accordance with the provisions of the Tariff Law.

(15) Each Project Company shall procure the goods and civil works required for Eligible Subprojects to be carried out in the Project State of such Project Company in accordance with the provisions of Schedule 5 to the Loan Agreement.

(16) The Borrower shall have the right to suspend disbursements under any or all CTFs made to a Project Company if such Project Company fails to comply with any of its obligations under a CTF.

