

CONFORMED COPY

LOAN NUMBER 7630-BR

Loan Agreement

**(Additional Financing for the Ceará Integrated Water Resources Management Project –
Projeto de Gestão Integrada dos Recursos Hídricos do Ceará - PROGERIRH II)**

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

STATE OF CEARÁ

Dated September 22, 2009

LOAN AGREEMENT

Agreement dated September 22, 2009, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and the STATE OF CEARÁ (“Borrower”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement).

The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred and three million Dollars (\$103,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. The Borrower’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is its Governor or its Secretary of Water Resources.
- 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 Fixed 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time, in each case with the prior no-objection of the Guarantor, through the Secretariat of the National Treasury of the Guarantor's Ministry of Finance, request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out Parts 1(a), 1(b), 1(c), and 2(c) of the Project through SRH and shall cause Part 1 of the Project to be carried out by COGERH and Parts 1(a), 2(a) and 2(b) the Project to be carried out by SOHIDRA; all in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that the Technical Cooperation Agreements have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower, COGERH or SOHIDRA to perform any of their obligations under this Agreement and/or under the Technical Cooperation Agreements.

- 4.02. The Additional Event of Acceleration consist of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 90 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Operational Manual, in form and substance satisfactory to the Bank, has been adopted by the Borrower through a decree.
 - (b) the Technical Cooperation Agreements have been signed between the Borrower, through SRH and respectively COGERH and SOHIDRA; all in form and substance satisfactory to the Bank.
- 5.02. The Additional Legal Matters consist of the following:
- (a) the Technical Cooperation Agreements have been duly authorized or ratified by the Borrower, COGERH and SOHIDRA and is legally binding upon the Borrower, COGERH and SOHIDRA in accordance with their terms.
 - (b) the Loan has been duly registered with the Guarantor's Central Bank.
- 5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on June 17, 2010.

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:

Governo do Estado do Ceará
Palácio de Iracema
Av. Professor José Martins Rodrigues, 150
Edson Queiroz
Fortaleza, CE, 60.811-520
Brazil

Facsimile:
(55-85) 3101 6200 or (55-85) 3101 1692

With copies to:

SEAIN - Secretaria de Assuntos Internacionais do
 Ministério do Planejamento, Orçamento e Gestão
 Esplanada dos Ministérios - Bloco K - 5º andar
 Brasília, DF, 70040-906
 Brazil

Facsimile:
 (55-61) 2020-5006

And to:

Secretaria dos Recursos Hídricos do Estado do Ceará
 Centro Administrativo Governador Virgílio Távora, Edifício SEDUC, 2º Andar
 Cambeba
 Fortaleza, CE, 60.830-120
 Brazil

Facsimile:
 (55-85) 3101 4049

Secretaria do Planejamento e Gestão do Estado do Ceará
 Centro Administrativo Governador Virgílio Távora, Edifício SEPLAG, 3º Andar
 Cambeba
 Fortaleza, CE, 60.830-120
 Brazil

Facsimile:
 (55-85) 3101 4514
 (55-85) 3101 4517

Secretaria da Fazenda do Estado do Ceará
 Av. Alberto Nepomuceno, 2
 Centro
 Fortaleza, CE, 60055-500
 Brazil

Facsimile:
 (55-85) 3101 9110

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 Fortaleza, Brazil, as of the day and year first above written.

STATE OF CEARÁ

By/s/ Makhtar Diop

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By/s/ Cid Ferreira Gomes

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) increase the sustainable water supply for multiple uses and improve the efficiency of the Borrower's integrated water resource management system; (b) stimulate multiple use, and efficient and participatory management of the Borrower's water resources; and (c) promote improved management of soil and vegetation in tributary watersheds to minimize erosion and enhance natural water storage mechanisms through the adequate management of critical micro-basins and ground water resources.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part 1: Water Resources Management

Support and deepen the Borrower's water resource sector reform agenda to improve management efficiency, consolidate water supply management, enhance public participatory mechanisms and strengthen institutional capacity through:

- (a) Institutional Strengthening: development and strengthening of human resources for the Borrower's water resources management entities and the public communication system to facilitate the social change for a new water culture.
- (b) Water Rights, Licensing and Control System, Bulk Water Tariff Program: (i) updating and expansion of the technical and information basis for allocating and managing water rights; (ii) enforcing water rights and bulk water charges; and (iii) re-evaluating the bulk water tariff and tariff collection system of COGERH.
- (c) Water Basins Committees and Water Users Associations: (i) supporting the creation of additional water basin committees and water user associations; (ii) dissemination of lessons learned and best practices through PRODHAM as detailed in the Operational Manual; and (iii) development of environmental education programs for bulk water conservation.
- (d) Operation and Maintenance of Hydraulic Infrastructure: (i) preparation of studies for rehabilitation and enhancement of water infrastructure; and (ii) implementation of automated Operation and Maintenance for priority infrastructure; including the Integration Canal.
- (e) Water Quality Management and Groundwater Management: (i) implementation of water quality monitoring system; and (ii) expansion and strengthening of the groundwater management system.

Part 2: Hydraulic Infrastructure

Implement the following Subprojects and activities for additional water storage in the Borrower's territory:

- (a) Strategic Reservoir Network: financing the construction of reservoirs in the Borrower's territory, including Umari and Gameleira.

(b) Water Transfer Axis: (i) completion of the third section of the Integration Canal which were initiated under the Original Project; and (ii) construction of the water supply systems that will be used to distribute the water from the strategic reservoirs, including *Umari/Madalena* and *Gameleira/Itapipoca*.

(c) Studies and Engineering Designs: support the Borrower's infrastructure investment planning.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional and Other Arrangements**

1. For the purposes of carrying out the Project, the Borrower shall maintain SRH with responsibilities, structure and functions satisfactory to the Bank, including an advisory council (the Advisory Council) and a dam safety review panel (the Dam Safety Review Panel); all with terms of reference acceptable to the Bank as set forth in the Operational Manual.
2. The Borrower shall continue, through SRH: (a) preparing and furnishing to the Bank annual operating plans and budgets, satisfactory to the Bank, detailing the Project activities proposed to be carried out during the next succeeding year and the respective sources of funding therefore, by October 30 of each year; and (b) furnishing to the Bank the approved annual operating plans and respective budgets referred to in paragraph (a) of this Section for each year in question.
3. The Borrower shall, through SRH, carry out the Project in accordance with the Operational Manual, the Environmental Management Framework, the Environmental Management Plans, and the Resettlement Framework, all as updated in form and substance satisfactory to the Bank and the approved annual operating plans and respective budgets, in a manner satisfactory to the Bank.

B. COGERH Technical Cooperation Agreement

1. To carry out Part 1 of the Project by COGERH, the Borrower shall sign and thereafter maintain and comply with, through SRH, a technical cooperation agreement (the COGERH Technical Cooperation Agreement) under terms and conditions approved by the Bank as further specified in the Operational Manual. The Borrower shall cause COGERH within its responsibilities to comply with said COGERH Technical Cooperation Agreement until the end of the execution of its respective parts of the Project.
2. The Borrower, through SRH, shall exercise its rights under the COGERH Technical Cooperation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the COGERH Technical Cooperation Agreement or any of its provisions.

C. SOHIDRA Technical Cooperation Agreement

1. To carry out Parts 1(a), 2(a) and 2(b) of the Project by SOHIDRA, the Borrower shall sign and thereafter maintain and comply with, through SRH, a technical cooperation

agreement (the SOHIDRA Technical Cooperation Agreement) under terms and conditions approved by the Bank as further specified in the Operational Manual. . The Borrower shall cause SOHIDRA within its responsibilities to comply with said SOHIDRA Technical Cooperation Agreement until the end of the execution of its respective parts of the Project.

2. The Borrower, through SRH, shall exercise its rights under the SOHIDRA Technical Cooperation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the SOHIDRA Technical Cooperation Agreement or any of its provisions.

D. Anti-Corruption

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

E. Subprojects

1. The Borrower through SRH shall carry out the Subprojects and shall cause the Subprojects to be carried out by SOHIDRA in accordance with the SOHIDRA Technical Cooperation Agreement and procedures acceptable to the Bank for each Subproject carried out under Part 2 (a) and (b) of the Project as further detailed in the Operational Manual, the Environmental Management Framework, and the Resettlement Framework.
2. When presenting a Subproject to the Bank for approval, the Borrower, through SRH, shall furnish to the Bank an application, in form and substance satisfactory to the Bank, and in conformity with the relevant provisions of the Operational Manual, containing, inter alia: (i) a description of the Subproject and expenditures to be incurred therein, including those expenditures proposed to be financed out of the proceeds of the Loan; (ii) a detailed description of how the relevant Subproject meets the eligibility criteria set forth in the Operational Manual; (iii) a plan for the administration, operation and maintenance of the proposed Subproject; (iv) an evaluation on the legal and physical availability of the land necessary for the purpose of the Subproject; (v) whenever necessary, evidence that the necessary water rights for the Subproject have been obtained; (vi) evidence that the Borrower holds the corresponding environmental permits required for the execution of the works planned under the proposed Subproject; (vii) whenever applicable, evidence of compliance with paragraph F below; and (viii) such other information as the Bank shall reasonably request in respect of the relevant Subproject.

F. Safeguards

1. Environmental Management Framework

The Borrower, through SRH, shall, when applicable in accordance with the provisions of the Environmental Management Framework (including provisions for pest management, forests, chance finding and salvage of cultural property and protection of natural habitats): (a) furnish to the Bank for its approval an Environmental Management Plan with its respective action plan as well as an Environmental Impact Assessment for each

Subproject; and (b) carry out the requirements specified by such Environmental Management Plan and Environmental Impact Assessment in accordance with their terms for each Subproject.

2. Resettlement

The Borrower shall, through SRH, when applicable in accordance with the provisions of the Resettlement Framework: (a) furnish to the Bank for its approval a Resettlement Plan for each Subproject; and (b) carry out the requirements specified by such Resettlement Plan in accordance with its terms.

3. Safety of Dams

Whenever a Subproject includes the construction of a dam which is fifteen meters or more in height, or which is between ten and fifteen meters in height and presents, in the reasonable opinion of the Bank, special design complexities, the Borrower shall: (i) establish and thereafter maintain during the design and initial operation of such Subproject, a Dam Safety Review Panel under terms of reference and arrangements acceptable to the Bank; (ii) cause the relevant dam, reservoir and related structures to be periodically inspected by qualified professionals under terms of reference acceptable to the Bank and in accordance with the relevant provisions of the Operational Manual, in order to determine whether there are any deficiencies in the condition of such structures, or in the quality and adequacy of maintenance or methods of operation of the same, which may endanger their safety; (iii) furnish to the Bank for its review the periodic reports of the Dam Safety Review Panel (to be issued in accordance with its terms of reference) and of the professionals referred to in subparagraph (ii) above, together with the Borrower's own comments; and (iv) no later than six months before the expected completion of the relevant dam, reservoir and related structures, propose to the Bank for its review and approval, appropriate arrangements for their operation and maintenance.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators set forth below in the 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 three 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 said calendar quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Non-Consultants' Services.** All goods, works and non-consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-Consultants' Services

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

<u>Procurement Method</u>
(a) National Competitive Bidding (including in respect of goods, non-consultants services and works, <i>convite, tomada de preços</i> and <i>concorrência</i> set forth in the Guarantor's Law No. 8.666 of June 21, 1993, and, <i>pregão eletrônico</i> set forth in the Guarantor's Law No. 10520 of July 17, 2002)
(b) Shopping

Contracts awarded on the basis of National Competitive Bidding are subject to the following additional procedures, namely that the bidding documents shall be acceptable to the Bank.

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.

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

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.

Amount of the Loan

<u>Category</u>	<u>Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works, non-consultants' services and consultants' services required for Part 1 of the Project, Audits and Operating Costs for the Project	10,742,500	90%
(2) Goods, works, non-consultants' services and consultants' services required for Part 2 of the Project, except for Part 2 (b)(i) and expropriation costs under Part 2(a) and Part 2(b)(ii)	92,000,000	100%
(3) Front-end Fee	257,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Premium for Interest Rate Caps and Collars	0	Amount payable pursuant to Section 2.07 (c) of this Agreement in accordance with Section 4.04 of the General Conditions
TOTAL	<u>103,000,000</u>	

For the purposes of this table, the term "Operating Costs" means recurrent costs of the Project incurred by SRH, and in accordance with the Technical Cooperation Agreements by COGERH and SOHIDRA, including: (i) operation and maintenance of vehicle, repairs, fuel and spare parts; (ii) equipment and computer maintenance, including hardware and software; (iii) communication costs and shipment costs (whenever these costs are not included in the cost of goods); (iv) office supplies and equipment; (v) rent for office facilities; (vi) utilities; and (vii) travel and per diem costs for SRH, COGERH or SOHIDRA technical staff carrying out supervisory and quality control activities.

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 \$10,300,000 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 December 31, 2011. The Bank will only grant an extension of the Closing Date after the Guarantor's Ministry of Finance has informed the Bank that it agrees with such extension.

SCHEDULE 3

Amortization Schedule

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

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 15 and October 15 Beginning April 15, 2015 through April 15, 2029	3.33%
On October 15, 2029	3.43%

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

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

APPENDIX

Section I. Definitions

1. “Advisory Council” means *Conselho dos Recursos Hídricos do Ceará*, an advisory council in charge of the overall oversight of the Project, as created and operating under the Borrower’s Law No. 11.996, dated July 24, 1992.
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. “Category” means a category set forth in the table in Section IV of Schedule 4 to this Agreement.
4. “COGERH” means *Companhia de Gestão dos Recursos Hídricos do Ceará*, the Borrower’s water resources management company as established and operating under the Borrower’s Law Number 12.217 of November 18, 1993.
5. “COGERH Technical Cooperation Agreement” means the agreement referred to in Section I. C of Schedule 2 to this Agreement and executed between SRH and COGERH for the implementation of Part 1 of the Project.
6. “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.
7. “Dam Safety Review Panel” means the panel of experts in dam safety referred to in Section I A.1 of Schedule 2 to this Agreement.
8. “Environmental Impact Assessment” means *Estudo de Impacto Ambiental/Relatório de Impacto do Meio Ambiente*, a document to be prepared, when applicable, in accordance with the provisions of the Environmental Management Framework as referred to in Section I.F.1 of Schedule 2 to this Agreement and to be published and available to the public on the website www.srh.ce.gov.br, outlining specific implementation procedures for each Subproject under the Project and providing for mitigation measures and monitoring procedures for environmental purposes, including chance finding for cultural property and protection of natural habitats, as said assessment may be amended from time to time with the Bank’s prior approval.
9. “Environmental Management Framework” means the document dated November 2008, as published and available to the public on the website www.srh.ce.gov.br which contains the environmental protection measures in respect of the Project, including measures for pest management, forests, chance finding of cultural property and protection of natural habitats, identification of existing environmental conditions and potential direct and indirect environmental impacts from the carrying out of the Project, including Subprojects, recommendation of mitigation measures for each negative impact identified, as well as measures for enhancing each identified positive impact.

10. “Environmental Management Plan” means the document (published and available to the public on the website www.srh.ce.gov.br), prepared in accordance with the Environmental Management Framework, outlining general implementation procedures, mitigation measures and monitoring procedures for Subprojects under the Project, as said plan may be amended from time to time with the Bank’s prior approval.
11. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
12. “Integration Canal” means the conveyance system of bulk water supplies from the Castanhão dam in the Jaguaribe River Basin to the Fortaleza Metropolitan Region.
13. “Operational Manual” means the operational manual for the Project, as updated and found satisfactory to the Bank to be adopted by the Borrower, which shall contain, *inter alia*: (i) the functions and responsibilities of the personnel of SRH in charge of daily Project coordination and monitoring; (ii) the functions and responsibilities of Advisory Council and of the Dam Safety Review Panel; (iii) the procedures for procurement of works, goods and services for the Project and for the Subprojects, as well as for financial management and audits; (iv) the indicators to be used in the monitoring and evaluation of the Project and of Subprojects; (v) flow and disbursement arrangements of Project funds; (vi) the eligibility criteria for the Subprojects, their selection and approval processes; (vii) the staffing plan for SRH; and (viii) the Environmental Management Framework and the Resettlement Framework, all as updated in form and substance satisfactory to the Bank and the first approved annual operating plan for the first year of the Project.
14. “Original Loan Agreement” means the loan agreement for the Original Project between the Bank and the Borrower, dated February 10, 2000 (Loan No. 4531-BR).
15. “Original Project” means the Project described in Schedule 2 to the Original Loan Agreement.
16. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
17. “PRODHAM” means *Projeto de Desenvolvimento Hidro-ambiental*, the Micro Watershed Management Pilot, referred as Part E of the Original Project, described in Schedule 2 of the Original Loan Agreement, to read as follows: “**Part E: Micro Watershed Management Pilot:** *Carrying out of projects in the Selected Micro Watersheds comprising the following activities: 1. Establishment of a methodology for prevention of the effects of degradation of vegetation and its rehabilitation, thus mitigating adverse environmental impacts. 2. Development of simple techniques for soil and water conservation in the micro watersheds by using local human and natural resources. 3. Restoration of native vegetation along watercourses and steep slopes. 4. Adoption of small erosion control and water retention structures to increase interseasonal water availability and improve the conditions for animal husbandry.*”

18. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated September 22, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
19. “Resettlement Framework” means the document (published and available to the public on the website www.srh.ce.gov.br), dated November 2008 and outlining general implementation procedures, mitigation measures and monitoring procedures for involuntary resettlement under the Project, as said framework may be amended from time to time with the Bank’s prior approval.
20. “Resettlement Plan” means a document or documents to be prepared, when applicable, in accordance with the provisions of the Resettlement Framework as referred to in Section I.F.2 of Schedule 2 to this Agreement and to be published and available to the public on the website www.srh.ce.gov.br and outlining specific implementation procedures, mitigation measures and monitoring procedures (including cadastre and action plan) for any involuntary resettlement under the Project, as said plan may be amended from time to time with the Bank’s prior approval.
21. “SOHIDRA” means “*Superintendência de Obras Hidráulicas*” the Borrower’s superintendency of hydraulic works as created and operating under the Borrower’s Law Number 11,380 of December 15, 1987.
22. “SOHIDRA Technical Cooperation Agreements” means the agreement referred to in Section I. C of Schedule 2 to this Agreement and executed between SRH and SOHIDRA for the implementation of Part 2(a) and (b) of the Project.
23. “SRH” means *Secretaria dos Recursos Hídricos*, the Borrower’s secretariat of water resources as created and operating under the Borrower’s Law Number 11.306 of April 1, 1987.
24. “Subprojects” means the infrastructure activities to be carried out under Part 2(a) and (b) 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.”