

CONFORMED COPY

LOAN NUMBER 7578-BR

Loan Agreement

(São Luís Enhancing Municipal Governance and Quality of Life Project - *Programa Bacia do Bacanga*)

between

MUNICIPALITY OF SÃO LUÍS

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 11, 2008

LOAN AGREEMENT

Agreement dated November 11, 2008, between the MUNICIPALITY OF SÃO LUÍS (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). 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 the Loan 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 five million six hundred and forty thousand Dollars (\$35,640,000), 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 the Secretary of Finance of the Municipality of São Luís.
- 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 May 15 and November 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, in each case with the prior non-objection of the Guarantor, through the Secretariat of the National Treasury of the Guarantor's Ministry of Finance, at any time 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 from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III—PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project, through the PMU, and with the assistance of the State of Maranhão in respect of Part 3.2 of the Project in accordance with the provisions of the Bacanga Dam Agreement and, in the event that the State of Maranhão does not carry out Part 3.2 of the Project, the Borrower shall carry out such Part, 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—EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following, namely that the Operational Manual has been adopted by the Borrower and approved by the Bank.

- 4.02. 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 January 18, 2010.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower's Representative is the Mayor of the Borrower.

- 5.02. The Borrower's Address is:

Prefeitura Municipal de São Luís
Praça Pedro II, s/n – Palacio de la Ravardièrre-Centro
CEP. 65071-650
São Luís
State of Maranhão
Brazil

Facsimile:
++ (55) (98) 3212-8009

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

MUNICIPALITY OF SÃO LUÍS

**By /s/ Carlos Tadeu D'Aguiar Silva Palácio
Authorized Representative**

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

**By /s/ John Briscoe
Authorized Representative**

SCHEDULE 1

Project Description

The objective of the Project is to improve the Borrower's capacity in the managerial, financial, urban, environmental and service-delivery areas with a view to promoting local economic development and improving the quality of life of the population living in the Bacanga River Basin.

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

Part 1: Local Economic Development and Municipal Management Strengthening

Strengthening of the Borrower's management and technical capabilities, through the provision of technical assistance and equipment for, *inter alia*:

1. the formulation and implementation of a LED and competitiveness strategy, including, *inter alia*, the preparation of an action plan for the promotion of economic development; a strategy to enhance the competitiveness of selected Clusters; and a series of activities aimed at simplifying the Borrower's business processes;
2. the carrying out of capacity building activities aimed at promoting job and income generation opportunities, including the provision of training in local economic development for municipal staff;
3. the improvement of the Borrower's financial and budget management capacity through the strengthening of public procurement and information disclosure; and
4. the strengthening of the Borrower's Project management, fiduciary, environmental, social and monitoring and evaluation capabilities, through: (a) the establishment and strengthening of the PMU; and (b) the carrying out of a series of actions to disseminate Project activities and conduct periodic consultations with the public-at-large, through public opinion surveys and community outreach activities.

Part 2: Sanitation and Water Improvements

The improvement of the Borrower's storm water drainage, sewerage, water supply and waste management systems and practices in the targeted areas of the Bacanga River Basin, through the provision of technical assistance, civil works and equipment, for *inter alia*:

the improvement of the Borrower's sewerage system, through the construction of sewerage collection systems and the implementation of a sludge drying system; and

the improvement of the Borrower's storm drainage system, through : (a) the construction of storm drainage networks, the improvement of the hydraulic operation of urban drainage canals,

the rehabilitation of areas of environmental value, and the preparation and implementation, on a pilot basis, of solid waste management activities; and (b) the carrying out of works for the rehabilitation of the *Rio das Bicas* drainage canal, including the preparation and implementation of a plan to resettle populations living in this location and in associated areas of environmental protection.

(a) The improvement of the Borrower's water supply system through the expansion of the water distribution system and the installation of metered connections; and the rehabilitation of the water distribution infrastructure connected to the Batatã Dam.

(b) The carrying out of a program, on a pilot basis, to reduce water losses affecting the Borrower's water supply system.

The strengthening of the Borrower's managerial and oversight capabilities for the effective carrying out of the activities detailed under this Part of the Project, including the construction of civil works, the regulation of water and sanitation services pursuant to the provisions of the WSS Law, the operation and maintenance of sanitation and drainage services and the development of a solid waste management plan.

Part 3: Urban and Environmental Improvements

The carrying out of activities aimed at improving the quality of urban land occupancy and housing and strengthening the Borrower's environmental management practices, through the provision of technical assistance, civil works and equipment for, *inter alia*:

1. the implementation of an urban upgrading program of actions, including: (a) the regularization of land occupancy and the legalization of land tenure for populations living in informal settlements in the Bacanga River Basin, the construction of roads, public spaces and community facilities and other works aimed at enhancing accessibility and living conditions; and (b) the preparation and implementation of a plan to resettle populations living in risk-prone areas in the Bacanga River Basin, where the urban upgrading program would be carried out;
2. the carrying out of a program of works for the rehabilitation of the structure and the system of floodgates of the Bacanga Dam, aimed at improving its operations, safety, environmental conditions and flooding control mechanisms; and
3. the strengthening of the Borrower's urban and environmental management capabilities, including the development and implementation of a municipal environmental policy and an urban land use policy, an environmental education plan for the Bacanga River Basin, and an environmental management plan for the Bacanga State Park.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Implementation Arrangements

1. At all times during the execution of the Project, the Borrower shall maintain a unit attached to its Secretariat for Special Projects, to be responsible for the overall implementation of the Project (the "PMU").

(a) The PMU shall be empowered with functions and responsibilities satisfactory to the Bank as set forth in the Operational Manual, including *inter alia* the following responsibilities:

- (i) overall planning and monitoring of Project activities, including coordination with state and municipal entities, CAEMA and other stakeholders;
- (ii) carrying out of Project procurement and contracting of the required works, goods and services, in close consultation with the Procurement Committee;
- (iii) elaboration of the annual operational plans;
- (iv) carrying out of the financial management of the Project;
- (v) overseeing the adequate implementation of the Resettlement Action Plans, if needed, under Parts 2 and 3 of the Project, the implementation of the Environmental Management Plan and any other environmental and social mitigation measures required for the implementation of Project activities;
- (vi) preparation and submission to the Bank of: (A) disbursement requests and supporting documentation; and (B) Project information and Project Reports in accordance with the format established in the Operational Manual;
- (vii) oversight of the performance of the Implementation Support Consultant; and
- (viii) provision of assistance and documentation to external independent auditors.

(b) The Borrower shall assign existing municipal staff, or appoint new technical, managerial and administrative staff to the PMU, all with terms of reference and qualifications acceptable to the Bank, as set forth in the Operational Manual, including, *inter alia*, the following: (i) coordinator; (ii) water sanitation specialist; (iii) procurement specialist; (iv)

social/environmental specialist; (v) LED specialist; (vi) project planning and monitoring specialist; (vii) urban planning specialist; (viii) financial management specialist; (ix) accounting specialist; and (x) information system management specialist.

(c) The Borrower shall, by no later than three months after the Effective Date: (i) employ, pursuant to the provisions of Part C. 1 of Section III of Schedule 2 to this Agreement, a consulting firm (“the Implementation Support Consultant”) to assist the PMU in the management, implementation and coordination of Project activities; and (ii) thereafter maintain until the completion of the Project, the Implementation Support Consultant with terms of reference satisfactory to the Bank as set forth in the Operational Manual.

B. Operational Manual

1. Without limitation to the provisions of Section 5.01 of the General Conditions, the Borrower shall cause the Project to be carried out in accordance with the provisions of a manual, satisfactory to the Bank (the “Operational Manual”), which shall detail the procedures and guidelines for the execution, monitoring and evaluation of the Project, including, *inter alia*:

(a) the functions, responsibilities, terms of reference, structure and composition of the PMU, the Procurement Committee, and the Implementation Support Consultant;

(b) the procedures for procurement of goods, works and consultants’ services, as well as for financial management and audits of the Project;

(c) the Performance Indicators; and

(d) the Regional Environmental Assessment, the Environmental Management Plan, the Resettlement Policy Framework, and the Bacanga Dam Safety Study.

2. The Operational Manual may be amended by the Borrower from time to time with the prior approval of the Bank. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

C. Anti-Corruption

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

D. Environmental and Social Provisions

1. Without limitation to the provisions of Section 5.01 (b) of the General Conditions, the Borrower shall carry out the Project in accordance with the provisions and recommendations of the Regional Environmental Assessment and the respective Environmental Management Plan, the Resettlement Policy Framework, any applicable Resettlement Action Plan, the Bacanga Dam Safety Study and the procedures outlined in the Operational Manual, when applicable.

2. Prior to initiating any bidding procedure for works under Parts 2 and 3 of the Project in respect of which a Resettlement Plan is required in accordance with the provisions of the Resettlement Framework, the Borrower shall submit to the Bank, for its review and approval: (a)

a Resettlement Action Plan for the population affected by the relevant works, to be prepared in accordance with the Resettlement Policy Framework; and (b) such other information as the Bank shall reasonably request, including the requisite national environmental licensing.

3. The Borrower shall ensure that any contractors that will carry out civil works financed under the Project shall perform their work in accordance with the technical, environmental and social practices for the Project, as set forth in the Resettlement Policy Framework, the Resettlement Action Plan, if applicable, the Bacanga Dam Safety Study, the Regional Environmental Assessment and the respective Environmental Management Plan.

4. For the purposes of Part 3.2 of the Project the Borrower shall, not later than six months after the Effective Date establish, and thereafter maintain, until the completion of the Project, the Bacanga Dam Safety Panel with powers and composition satisfactory to the Bank as set forth in the Operational Manual, including the oversight of dam safety matters pursuant to the provisions of the Dam Safety Study.

E. Inter-Institutional Agreements

1. (a) For the purposes of Part 2 of the Project, the Borrower has entered into an agreement with CAEMA (“the Concession Agreement Amendment”) consisting of contractual provisions which were approved by the Bank, including *inter alia*:

- (i) the obligation of CAEMA to carry out the operation and maintenance of water and sanitation systems installed under the Project;
- (ii) the obligation of CAEMA to develop an investment plan for the Bacanga River Basin; and
- (iii) the establishment of targets for water service provision, regulations and structures for tariffs applicable to the delivery of water, and guidelines for the quality and social control of water service provision by CAEMA.

(b) The Borrower shall exercise its rights and comply with its obligations under the Concession Agreement Amendment, in such a manner as to protect the interests of the Borrower and the Bank, and to accomplish the purposes of the Project, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the Concession Agreement Amendment or any part thereof.

2. (a) For the purposes of Part 3 of the Project, the Borrower has entered into an agreement with the State of Maranhão (the Bacanga Dam Agreement) consisting of contractual provisions which were approved by the Bank, including, *inter alia*:

- (i) the obligation of the State of Maranhão:
 - (A) to carry out and finance out of its own resources Part 3.2 of the Project; and

- (B) to provide, out of its own resources, funding for any other repairs and the operation of the Bacanga Dam pursuant to the provisions of an operational plan to be developed under the Project; and
- (ii) the obligation of the Borrower to develop guidelines for the improvement of safety and flooding control mechanisms for the Bacanga Dam pursuant to the provisions of the Bacanga Dam Safety Study.

(b) The Borrower shall exercise its rights and comply with its obligations under the Bacanga Dam Agreement, in such a manner as to protect the interests of the Borrower and the Bank, and to accomplish the purposes of the Project, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the Bacanga Dam Agreement or any part thereof.

Section II. Project Monitoring, Reporting, 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 the Performance Indicators set forth 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 forty-five days after the end of the period covered by such report.
2. The Borrower shall, by December 31, 2010 or whenever an amount equivalent to 50% of the total amount of the Loan has been disbursed, whichever is earlier: (a) review with the Bank the Project Report detailing mid-term progress achieved in Project implementation, pursuant to the terms of the Operational Manual, the Resettlement Policy Framework, the Resettlement Action Plan, if applicable, the Regional Environmental Assessment, the Environmental Management Plan, and the Dam Safety Study; (b) identify any issue that may delay or impede the implementation of any of the Project activities; and (c) propose any solutions to resolve such issues.

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

Section III. Procurement

A. General.

1. Goods, Works and Non-Consultant Services. (a) All goods, works and non-consultant 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 Schedule.

(b) All contracts for civil works procured pursuant to paragraph (a) above shall include a provision to ensure that all contractors will carry out their contractual obligations in accordance with the Regional Environmental Assessment, the Environmental Management Plan, the Resettlement Policy Framework, the Resettlement Action Plan, if applicable, the Dam Safety Study, and any other environmental and social practices detailed in the Operational Manual.

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 Schedule.

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 and Works and Non-consultant Services

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

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

<u>Procurement Method</u>
<p>(a) National Competitive Bidding, subject to the following additional procedures:</p> <p>(i) the invitation to bid shall be advertised as a minimum in the national press or Official Gazette or a free and open access website;</p> <p>(ii) the arrangements, under the invitation to bid, for joint-ventures (<i>consórcios</i>) of Brazilian and foreign firms shall be approved in advance by the Bank in each case; and</p> <p>(iii) the purchaser shall not, without the Bank's prior approval in respect to all contracts for which prior review is required in accordance with the Procurement Plan, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.</p>
(b) Shopping
(c) Community Participation in Procurement

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>
(a) Selection Based on the Consultants' Qualifications (CQS)
(b) Single-Source Selection (SSS)
(c) Selection under a Fixed Budget (FBS)
(d) Least-Cost Selection (LCS)
(e) 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: (a) Article II of the General Conditions, (b) this Section, and (c) 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.

Category	Amount of the Loan Allocated (expressed in Dollars)	Percentage of Expenditures to be financed (inclusive of taxes)
(1) Goods and Operating Costs for Part 1 of the Project	1,350,900	55%
(2) Goods and works for Part 2 of the Project	14,200,000	55%
(3) Goods and works for Part 3 of the Project (other than for Part 3.2 of the Project)	6,000,000	55%
(4) Consultants Services and Training	11,000,000	100%
(5) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07 (c) of this Agreement in accordance with Section 4.04 of the General Conditions
(6) Front-end Fee	89,100	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(7) Unallocated	3,000,000	
TOTAL AMOUNT	35,640,000	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

- (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee; and
- (b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$3,000,000 equivalent may be made for payments made prior to this date but on or after August 1, 2007, and in no case more than 12 months before the date of this Agreement, for Eligible Expenditures.

2. For the purposes of this Section:

(a) the term “ Training” means reasonable expenditures incurred by the PMU for the planning, organization and delivery of seminars, workshops and other Project-related training of municipal and the PMU staff, including *inter alia*: tuition costs, travel and per diem and course enrollment charges and publications; and

(b) the term “ Operating Costs” means the incremental expenses incurred by the PMU (none of which would have been incurred absent the Project), including those associated with the management and coordination of Project activities, maintenance and supplies, printing services, communication services, and travel and per diem expenses for the PMU staff.

3. It is hereby agreed by the parties to this Agreement that in the event that the amount of financing for Part 3.2 of the Project to be provided under the terms of the Bacanga Dam Agreement were not to be available or insufficient for the financing of such Part 3.2 of the Project, the Borrower may request the Bank for the reallocation of Loan proceeds so as to finance all or part of the costs of such part of the Project out of the proceeds of Loan.

4. The Closing Date is December 31, 2013.

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 May 15 and November 15 Beginning November 15, 2013 through May 15, 2038	2%

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. “Bacanga Dam” means *Barragem do Bacanga*, the dam structures constructed by the State of Maranhão and in operation since 1973 with a view to reducing variations in tidal levels in areas along the Bacanga River and allowing urban occupancy in such areas.
2. “Bacanga Dam Agreement” means *Convênio de Cooperação para Recuperação Estrutural e das Comportas da Barragem do Bacanga*, the agreement entered into between the State of Maranhão and the Borrower dated June 10, 2007, pursuant to the provisions of Section I.E.2 of Schedule 2 to this Agreement, as such may be amended from time to time with the prior approval of the Bank.
3. “Bacanga Dam Safety Panel” means a panel comprising at least three experts with recognized expertise in the technical fields relevant to safety, design and operational aspects of the Bacanga Dam, to be appointed by the Borrower as set forth in the Operational Manual.
4. “Bacanga Dam Safety Study” means *Avaliação das Condições de Estabilidade e Segurança da Barragem do Bacanga-Relatorio Final*, the document dated July, 2007 (Rev.01), prepared by the Borrower pursuant to the provisions of Bank policy regarding Dam Safety (OP 4.37) and detailing the findings and recommendations of an independent assessment issued by the Bacanga Dam Safety Panel regarding the technical, safety and environmental aspects to be taken into consideration through the carrying out of Project-funded rehabilitation activities under Part 3.2 of the Project.
5. “Bacanga River Basin” means *Bacia do Bacanga* the area within the territory of the Borrower covering the catchments area of the Bacanga River, and occupying an area of approximately 130 square kilometers.
6. “Bacanga State Park” means *Parque Estadual do Bacanga*, the extension of land located in the territory of the Borrower established by the State of Maranhão pursuant to its Decree No. 7545, dated March 17, 1980, and published in the State of Maranhão’s Official Gazette on March 21, 1980, as an area of forest and water resource preservation.
7. “CAEMA” means *Companhia de Águas e Esgotos do Maranhão*, the water and sewerage utility of the State of Maranhão, established and operating as a mixed economy company (*sociedade de economia mista*) pursuant to the provisions of the State of Maranhão Law No. 2653 dated June 6, 1966 published in the State of Maranhão’s Official Gazette on June 13, 1966, and registered as a company under No. 06.274.757/0001-50, and any of its successor or successors thereto.
8. “Category” means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.
9. “Cluster” means *Arranjos Produtivos Locais*, a geographic concentration of inter-connected economic actors, including, *inter alia*, businesses, firms and suppliers in the service, manufacturing, agricultural and mining sectors, public entities and non-profit organizations,

formally or informally linked through their activities and operating in the territory of the Borrower.

10. “Concession Agreement” means *Termo de Ratificação Contratual e Outros Pactos*, the concession agreement entered into between CAEMA and the Borrower in 1996.
11. “Concession Agreement Amendment” means *Termo de Aditamento ao Contrato de Concessão da Prestação dos Serviços de Água e Esgotamento Sanitário*, the Concession Agreement amendment entered into between CAEMA and the Borrower dated April 7, 2008, and referred to in Section I.E.1 of Schedule 2 to this Agreement.
12. “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.
13. “Environmental Management Plan” means the Borrower’s plan dated July, 2007 including a series of actions to be undertaken by the Borrower, during the implementation of the Project, for avoiding, minimizing and mitigating potential negative environmental impacts arising from the activities supported by the Project, as such plan may be amended from time to time with the prior approval of the Bank.
14. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
15. “Implementation Support Consultant” means the consulting firm referred to in Section I. A.1(c) of Schedule 2 to this Agreement.
16. “LED” means local economic development.
17. “Municipality of São Luís” means *Prefeitura Municipal de São Luís*, a territorial and government sub-national entity established within the State of Maranhão.
18. "Operational Manual" means *Manual Operacional do Programa de Recuperação Ambiental e Melhoria da Qualidade de Vida da Bacia do Bacanga*, a manual satisfactory to the Bank, referred to in Section I.B. of Schedule 2 of this Agreement, as the same may be amended from time to time with the Bank’s prior approval.
19. “Performance Indicators” means the indicators to be used in the monitoring and evaluation of the Project as set forth in the Operational Manual.
20. “PMU” means the *Unidade de Gerenciamento do Programa -UGP*, the unit referred to in Section I.A.1. of Schedule 2 to this Agreement, established pursuant to the provisions of the Borrower’s Law dated April 9, 2008 and published in the Borrower’s Official Gazette on April 10, 2008.
21. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
22. “Procurement Committee” means *Central Permanente de Licitação*, the Borrower’s committee established and operating pursuant to the Borrower’s Law No. 4537, dated

November 16, 2005, and published in the Borrower's Official Gazette on November 18, 2005, responsible for all aspects pertaining to public procurement in the territory of the Borrower.

23. "Procurement Plan" means the Borrower's procurement plan for the Project, dated April 11, 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.
24. "Regional Environmental Assessment" means *Avaliação Ambiental Regional*, the Borrower's regional assessment of the Project's environmental and social impacts dated July, 2007, aimed at identifying any impacts associated with the Project pursuant to the provisions of Bank policy regarding environmental assessments (4.01), protection of natural habitats (4.04), protection of physical and cultural resources (4.11), involuntary resettlement (4.12), and safety of dams (4.37), as such assessment may be amended from time to time with the prior approval of the Bank.
25. "Resettlement Action Plan" means *Plano de Reassentamento Involuntário*, a plan developed by the Borrower pursuant to the provisions of the Resettlement Policy Framework, and approved by the Bank, for the involuntary resettlement of population required under Parts 2 and 3 of the Project.
26. "Resettlement Policy Framework" means *Marco Conceitual- Política de Reassentamento Involuntário*, the Borrower's document dated June, 2006, defining the framework and procedures applicable to the involuntary resettlement of population, in the event it is required in connection with civil works to be carried out under Parts 2 and 3 of the Project, as said framework may be amended from time to time with the Bank's prior approval.
27. "São Luís" means the capital city of the State of Maranhão located in the São Luís island.
28. "State of Maranhão" means that of the twenty-six sub-national territorial and government entities (*Estados*) within the territory of the Guarantor that bears said name.
29. "WSS Law" means the Guarantor's Law No. 11.445, dated January 5, 2007, published in the Guarantor's Official Gazette No. 5 on January 8, 2007, as amended to the date of this Agreement.