Loan Agreement

(Sergipe Water Project – Programa Águas de Sergipe)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF SERGIPE

Dated September 13, 2012
LOAN AGREEMENT

Agreement dated September 13, 2042 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and STATE OF SERGIPE ("Borrower"). The Bank and the Borrower hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of seventy million two hundred and seventy five thousand Dollars ($70,275,000), 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 Borrower’s Secretary of Environment and 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 the Reference Rate 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 (e) 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 at any time, 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, 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, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; 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, under the overall coordination and supervision of SEMARH through the UAPAS:

(a) carry out Part I of the Project through SEMARH with the assistance of ADEMA and ITPS;
(b) carry out Part II of the Project through SEMARH and SEAGRI with the assistance of COHIDRO and EMDAGRO; and

(c) cause Part III of the Project to be carried out by DESO, 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 Events of Suspension consist of the following:

(a) DESO Legislation and/or the Cooperation Entity Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of DESO and/or the respective agency to perform any of its obligations under the DESO Implementation Agreement and/or the corresponding Cooperation Agreement, respectively.

(b) DESO shall have failed to perform any of its obligations under the DESO Implementation Agreement.

(c) Any Cooperating Entity shall have failed to perform any of its obligations under the corresponding Cooperation Agreement.

4.02. Notwithstanding the rights contained in Section 7.02 of the General Conditions, it is understood that, if any of the Cooperating Entities or DESO shall have failed to comply with any obligation under the Cooperation Agreements or the Implementation Agreement, respectively, or a situation shall have arisen so as to materially and adversely affect, in the opinion of the Bank, the ability of any Cooperating Entity or DESO to carry out its obligations under the relevant Cooperation Agreement or under the Implementation Agreement, and the Borrower has been unable to remedy such lack of compliance, the Bank may, by notice to the Borrower, suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for Eligible Expenditures related to the Project Parts affected by such lack of compliance.
ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely, that the DESO Implementation Agreement has been executed on behalf of the Borrower and DESO.

5.02. The Additional Legal Matter consists of the following:

(a) The DESO Implementation Agreement has been duly authorized or ratified by the Borrower and DESO and is legally binding upon the Borrower and DESO in accordance with its terms.

(b) The Loan has been registered by 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 July 26, 2013.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

5.01. Except as provided in Section 2.02 of this Agreement, the Borrower’s Representative is the Borrower’s Governor.

6.02. The Borrower’s Address is:

Secretaria de Estado de Meio Ambiente e dos Recursos Hídricos
Av. Heráclito Rollemberg, 4444
Distrito Industrial de Aracaju
Aracaju, SE, 49030-640
Brazil

Facsimile: (55-79) 3179-7205

With copies to:

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

Facsimile: (55-61) 2020-5006
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

<table>
<thead>
<tr>
<th>Cable address:</th>
<th>Telex:</th>
<th>Facsimile:</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTBAFRAD</td>
<td>248423 (MCI) or</td>
<td>1-202-477-6391</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>64145 (MCI)</td>
<td></td>
</tr>
</tbody>
</table>

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

STATE OF SERGIPE

By

[Signature]

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

[Signature]

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to promote the efficient and sustainable use of water in the Sergipe River Basin by strengthening the Borrower’s sector management, enhancing soil management practices and improving water quality.

The Project consists of the following parts:


1. Integrated Water Resource Management:

   Improvement of the Borrower’s water resources and environmental management capacity through carrying out of activities designed to promote an increased integration between policies and practices, coordination among related agencies addressing water resources planning regulation, management and services provision, including:

   (a) preparatory work for the design of the institutional model of an agency in charge of water resource management;

   (b) development of water resources and environmental management procedures and instruments;

   (c) improvement of the soil management practices in the Sergipe River Basin;

   (d) development and implementation of new regional management models for the provision and management of solid waste and water and sanitation services for rural and small towns; and

   (e) carrying out of communication and environmental education programs.

2. Project Management:

   Strengthening the Borrower’s capacity for overall Project management, monitoring, evaluation and dissemination.

Part II: Water for Irrigation

   Improvement of the technical, institutional and environmental sustainability of the two irrigation perimeters of Poção da Ribeira dam and Jacarecica I dam, and provision of technical assistance to support future improvements of the Jacarecica II dam
irrigation perimeter and to promote improved environmental soil and water use practices within targeted micro-basins of the Jacarecica sub-basin, including:

(a) rehabilitation and modernization of public irrigation perimeters and water infrastructure in the Poção da Ribeira and Jacarecica I dam perimeters;

(b) promotion of environmental management through the implementation of selected activities designed to promote soil and water conservation and more efficient irrigation methods for farmers;

(c) rehabilitation of existing tubular wells in the Sergipe River Basin and construction of small-scale rural and small-town water supply and sanitation solutions in selected localities of the Sergipe River Basin;

(d) minor rehabilitation of the following dams: Poção da Ribeira, Jacarecica I and Jacarecica II, based on the recommendations of the Independent Dam Safety Panel;

(e) capacity building and institutional strengthening of SEAGRI, COHIDRO and EMDAGRO.

Part III: Water for Cities

Complement the Borrower’s ongoing efforts to finance interventions aimed at improving the quality of life of residents in targeted municipalities in the Sergipe River Basin as well as the quality of water and sustainability of the environment in these areas through the expansion of water supply and sanitation and urban drainage infrastructure, and the improvement in the efficiency and quality of services offered by DESO, including:

1. Services Expansion in the MRA:

(a) Expansion of the existing wastewater systems and treatment plants within the territorial jurisdiction of the Borrower’s municipality of Aracaju; and

(b) Construction of wastewater systems and treatment plant within the territorial jurisdiction of the Borrower’s municipality of Barra dos Coqueiros.
2. **Services Expansion and Improvements in the Sergipe River Basin:**

(a) carrying out of activities for the expansion and optimization of water supply conveyance systems, and sanitation and drainage services in selected Borrower’s municipalities located within the Sergipe River Basin (the Water Supply Subprojects); and

(b) provision of technical assistance to DESO to enhance corporate governance and strategic planning, raise the quality of water supply and sanitation services, and improvement of the operational efficiency, including, *inter alia*, the carrying out of the following studies: (i) corporate management planning; (ii) management plan for wastewater services; (iii) institutional arrangements and instruments for service provision; (iv) water loss control and energy efficiency programs; and (v) integrated operation of water supply sources in metropolitan area to optimize costs and water reliability.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall:
   (a) throughout Project implementation, operate and maintain: (i) the UAPAS within SEMARH; and (ii) an Advisory Council, all with the powers and responsibilities set forth in the Operational Manual; and
   (b) no later than two months from the Effective Date, have the UAPAS fully staffed with personnel with experience and qualifications satisfactory to the Bank, including the following key staff: coordinators and experts to handle the technical, procurement, financial management and safeguard aspects of their respective parts of the Project.

B. Agreements

1. (a) The Borrower shall enter into an agreement with DESO (the DESO Implementation Agreement) under terms and conditions satisfactory to the Bank, including, inter alia: (i) the Borrower’s obligation of making part of the proceeds of Loan available to DESO for the implementation of Part III of the Project; (ii) the arrangements for the implementation of Part III of the Project; and (iii) DESO’s obligation to abide by the Anti-Corruption Guidelines and to comply with the pertinent provisions of this Agreement in respect of said Part of the Project.

   (b) The Borrower shall, prior to initiating any Project activity for the benefit of a Cooperation Entity, enter into an agreement (the Cooperation Agreement) with the corresponding Cooperating Entity under terms and conditions satisfactory to the Bank, including, inter alia: (i) the arrangements for the implementation of Parts I and II of the Project; (ii) the Cooperation Entity’s obligation to: (A) abide by the Anti-Corruption Guidelines, and with the pertinent provisions of this Agreement in respect of said Parts of the Project; and (B) support SEMARH in the procurement process related to those parts of the Project, including preparation of terms of reference and supervision of works.

2. The Borrower shall exercise its rights and carry out its obligations under DESO Implementation Agreement and under each 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 amend, assign, abrogate, terminate, waive or fail to enforce the DESO Implementation Agreement or any Cooperation Agreement or any of their provisions.

C. Anti-Corruption

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

D. Operational Manual

Without limitation to the provisions of Article V of the General Conditions, the Borrower shall: (a) carry out Parts I and II of the Project; and (b) cause DESO to carry out Part III of the Project, in accordance with the Operational Manual, satisfactory to the Bank, containing, inter alia:

(a) the functions, responsibilities and training requirements for the personnel responsible for the coordination, monitoring and evaluation of the Project, including the UAPAS and the Advisory Council;

(b) procedures for procurement of goods, works and services, as well as for financial management, disbursement and audits of the Project and respective forms, reports and guidelines;

(c) the indicators to be used in the monitoring and evaluation of the Project;

(d) the Environmental Management Plan, the Environmental Construction Manual and the Resettlement Policy Framework;

(e) the criteria for selecting and approving Water Supply Subprojects; and

(f) the counterpart funding requirements of the Project.

In case of any conflict between the provisions of this Agreement and those of the Operational Manual, the provisions of this Agreement shall prevail.

E. Safeguards

1. The Borrower shall:

(a) furnish to the Bank for its approval, in accordance with the Resettlement Policy Framework, and prior to initiating the bidding process for any
contract for construction works that involve Resettlement, any needed Resettlement Plan; and

(b) carry out such each Resettlement Plan in accordance with its terms, and in a manner acceptable to the Bank.

2. The Borrower shall carry out the Project in accordance with the Environmental Management Plan (including the Environmental Construction Manual, the chance find procedures for cultural property and the pest management, forestry and reforestation procedures) and furnish to the Bank any needed documentation as required by this Environmental Management Plan.

3. The Borrower shall, prior to initiating any rehabilitation activities under Part II (d) of the Project:

(a) establish a panel of experts (the "Independent Dam Safety Panel"), under terms of reference acceptable to the Bank, to review and advise the Borrower on matters relative to the safety of said dams and other critical aspects of said dams, as further detailed in said terms of reference;

(b) cause the Independent Dam Safety Panel to: (i) meet regularly during Project implementation; (ii) evaluate periodically the safety of such dams in accordance with the terms of reference mentioned in (a) herein, and, as a result of said evaluation, identify any remedial action to improve their safety or any critical aspect of said dams; and (iii) thereafter, prepare and furnish to the Bank, an action plan (Dam Safety Action Plan), acceptable to the Bank; and

(c) thereafter, furnish evidence, in form and substance satisfactory to the Bank, of the actions taken to address any such deficiencies.

4. Without limitation to the provisions of Section I.D (d) of Schedule 2 to this Agreement in respect of any given Project activity under Part III.1 (a) of the Project in which works are involved, the Borrower shall:

(a) upon completion of the Borrower's environmental licensing review process and/or upon the definition of the precise sitting alignments, and prior to the carrying out of any said works, if applicable as determined by the Bank, carry out and/or cause to be carried out (as the case may be) a supplemental environmental impact assessment for the corresponding works under terms of reference acceptable to the Bank;

(b) based on said supplemental environmental impact assessment, and if determined by the Bank, prepare and /or cause to be prepared and furnish
to the Bank, an acceptable supplemental environmental management plan for said works; and

(c) thereafter, implement and/or cause to be implemented, said supplemental environmental management plan in accordance with its terms and in a manner acceptable to the Bank.

5. The Borrower shall ensure, and/or cause the Cooperation Entities to ensure, that the terms of reference for any technical assistance in respect of any Project activity shall be satisfactory to the Bank following its review thereof and, to that end, such terms of reference shall duly incorporate the requirements of the Bank Safeguards Policies then in force, as applied to the advice conveyed through such technical assistance.

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 the 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 45 days after the end of the period covered by such report.

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 45 days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, 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, Non-Consulting Services and Works. All goods, Non-Consulting Services and works 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, Non-Consulting Services and Works

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

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

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding including in respect of goods, works and Non-Consulting Services, <em>pregão eletrônico</em> (set forth in the Guarantor’s Law no, 10520 of July 17, 2002 and in Decree nº 5450 of May 31, 2005), under any e-procurement system approved by the Bank, subject to the following additional procedure, namely, that the bidding documents shall be acceptable to the Bank.</td>
</tr>
<tr>
<td>(b) Shopping, including in respect of goods and services, <em>pregão eletrônico</em> set forth in Guarantor’s Law nº 10520, of July 17, 2002 and in Decree nº 5450 of May 31, 2005.</td>
</tr>
<tr>
<td>(c) Direct Contracting.</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Least Cost Selection</td>
</tr>
<tr>
<td>(b) Quality-Based Selection</td>
</tr>
<tr>
<td>(c) Consultants’ Qualifications</td>
</tr>
<tr>
<td>(d) Fixed Budget Selection</td>
</tr>
<tr>
<td>(e) Single-Source Selection</td>
</tr>
<tr>
<td>(f) Procedures set forth Section V of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(g) Sole Source Procedures for the Selection of Individual Consultants set forth in paragraph 5.6 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, Non-consulting Services, consultants' services,</td>
<td>70,099,312</td>
<td>100%</td>
</tr>
<tr>
<td>Training and Operating Costs for all Parts of the Project (other than</td>
<td></td>
<td></td>
</tr>
<tr>
<td>under Part III. 1 thereof)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>175,688</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in</td>
</tr>
<tr>
<td></td>
<td></td>
<td>accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(3) Premia for Interest Rate Caps and Interest Rate Collars</td>
<td>0</td>
<td>Amount due under Section 2.07 (c) of this Agreement</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>70,275,000</td>
<td></td>
</tr>
</tbody>
</table>

3. For the purposes of this Section:

(a) the term "Training" means reasonable expenditures (other than those for consultants' services) incurred by the Borrower or DESO for the purposes of the Project and directly related to training activities described in the Project, including, *inter alia*, costs related to workshops, seminars, conferences, study tours, training registration fees, training facilities and equipment rentals, and local travel costs and *per diems* for the UAPAS and other selected staff of the Borrower or DESO;
(b) the term "Operating Costs" means the reasonable cost of recurrent expenditures for the implementation of the Project (which would not have been incurred absent the Project) such as lodging and *per diem* and transportation costs, but excluding expenditures for civil servants' salaries and DESO's staff salaries; and

(c) the term "Non-Consulting Services" means services that are not intellectual by nature which can be procured on the basis of performance of measurable physical outputs, including, *inter alia*, surveys, topography, soil studies, printing and transport services.

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 $14,000,000 equivalent may be made for payments made within twelve months of the date of this Agreement but on or after November 23, 2011.

2. The Closing Date is June 30, 2017. 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.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15</td>
<td></td>
</tr>
<tr>
<td>Beginning May 15, 2017</td>
<td>2.5%</td>
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<tr>
<td>Through November 15, 2036</td>
<td></td>
</tr>
</tbody>
</table>

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.
(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 1. Definitions

1. "ADEMA" means Administração Estadual do Meio Ambiente, the Borrower’s environmental agency established pursuant to the Borrower’s Law No. 2181 dated October 12, 1978, as amended to the date of this Agreement.

2. "Advisory Council" means the council referred to in Section I.A. 1. (a) of Schedule 2 to this Agreement, to be established through a Borrower’s Decree.


5. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

6. "COHIDRO" means Empresa de Desenvolvimento de Recursos Hídricos e Irrigação, the Borrower’s water resources and irrigation development company established pursuant to the Borrower’s Law No. 2985 dated May 23, 1991, as amended to the date of this Agreement.


8. "Cooperation Agreement" means any of the agreements referred to in Section I.B.1(b) of Schedule 2 to this Agreement.

9. "Cooperating Entity" means collectively ADEMA, ITPS, SEAGRI, COHIDRO, and EMDAGRO.

10. "Cooperation Entity Legislation" means the legislation creating COHIDRO, ITPS, ADEMA and EMDAGRO referred to in paragraphs 1, 4, 13 and 19 of this Schedule.

12. “DESO” means Companhia de Saneamento de Sergipe, the Borrower’s water supply and sanitation agency established pursuant to the DESO Legislation.

13. “DESO Implementation Agreement” means the agreement referred to in Section I. B. 1 (a) of Schedule 2 to this Agreement.

14. “DESO Legislation” means the Borrower’s Decree (Decreto-Lei) No. 109 of August 25, 1969, authorizing the change of the Borrower’s sanitation department into a corporation of mixed economy - Companhia de Saneamento de Sergipe - DESO, as amended to the date of this Agreement.

15. “EMDAGRO” means Empresa de Desenvolvimento Agropecuário de Sergipe, the Borrower’s agricultural development company established pursuant to the Borrower’s Law No. 2960 of April 9, 1991, as amended to the date of this Agreement.


17. “Environmental Construction Manual” means the Borrower’s manual dated October 25, 2010 (included in the Operational Manual), setting forth environmental guidelines to be followed by construction companies during the execution of works under the Project.

18. “Environmental Management Plan” means the Borrower’s plan dated October 25, 2010, (included in the Operational Manual) setting forth the actions for assessment and management of the environmental, cultural property, pest management, forests, natural habitats, and safety of dams aspects of the Project, including therein the requirements applicable to Part I.1 (d) of the Project which are contained in the plan approved by the Bank for the Integrated Solid Waste Management and Carbon Finance Project on November 2, 2010, set forth in the Operational Manual.

20. "Independent Dam Safety Panel" means the panel composed of independent experts to be established pursuant to Section I. E. 3. (a) of Schedule 2 to this Agreement.

21. "Irrigation Activity" or "Activity" means any of the activities to be carried out under Part II. (a) of the Project.

22. "ITPS" means Instituto de Tecnologia e Pesquisa de Sergipe, the Borrower's Institute of Technology and Research, established pursuant to the Borrower's Law No. 5511 dated December 28, 2004, as amended to the date of this Agreement.

23. "Jacarecica" means a tributary river of the Sergipe River Basin.

24. "Jacarecica Dams I and II" mean the two dams that form the water reservoirs located in the Jacarecica river.


26. "Operational Manual" means the Borrower's manual referred to in Section I.D of Schedule 2 to this Agreement and approved by the Bank on November 22, 2011.


28. "Procurement Plan" means the Borrower's procurement plan for the Project, as approved by the Bank on November 23, 2011 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.

29. "Resettlement" means the impact of an involuntary taking of land under the Project, which taking causes affected persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently.

30. "Resettlement Plan" means any plan prepared following the requirements of the Resettlement Policy Framework and approved by the Bank.
31. “Resettlement Policy Framework” means the Borrower’s framework dated September 30, 2010 and set forth in the Operational Manual, defining the procedures for the involuntary resettlement of population in connection with the works to be carried out under the Project and including therein the requirements applicable to Part I. 1 (d) of the Project which are contained in the framework approved by the Bank for the Integrated Solid Waste Management and Carbon Finance Project on August 19, 2010.

32. “SEAGRI” means Secretaria de Estado da Agricultura e do Desenvolvimento Agrário, the Borrower’s Secretariat of Agriculture and Agrarian Development.

33. “SEMARH” means Secretaria de Estado de Meio Ambiente e Recursos Hídricos, the Borrower’s Secretariat of Environment and Water Resources.

34. “Sergipe River Basin” means the area drained by the Sergipe River and its tributaries and comprising 26 municipalities set forth in the Borrower’s Law No. 3.870 as published by the Borrower’s Official Gazette on September 25, 1997.

35. “UAPAS” means Unidade Técnica de Administração do Programa Águas de Sergipe, the unit established with responsibilities for project implementation within SEMARH pursuant to the Borrower’s Decree No. 26830 dated January 4, 2010 and published in the Borrower’s Official Gazette dated January 6, 2010.

36. “Water Supply Subprojects” means any of the investments under Part III.2 (a) of the Project which meet the eligibility criteria and requirements set forth in the Operational Manual.