Loan Agreement

(São Paulo Sustainable Rural Development and Access to Markets Project - Projeto Desenvolvimento Rural Sustentável – Microbacias II)

between

STATE OF SÃO PAULO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 27, 2010
LOAN AGREEMENT

Agreement dated September 27, 2010, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and STATE OF SÃO PAULO ("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 eight million dollars ($78,000,000), 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 Representatives for purposes of taking any action required or permitted to be taken pursuant to this Section are its Governor or its Secretary of Finance.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
2.05. The Payment Dates are June 15 and December 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 its Secretariat of the National Treasury, 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 objective of the Project. To this end, the Borrower shall carry out the Project through its Secretariat of Agriculture and Supply (by CATI) and through its Secretariat of Environment (by CBRN) 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 Project Management Unit’s Regulation or the Steering Council’s Regulation have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower to perform any of its obligations under this Agreement.

4.02. The Additional Event of Acceleration consists of the following, namely that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 120 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Project Management Unit’s Regulation and the Steering Council’s Regulation have been adopted and published in form and substance satisfactory to the Bank.

(b) The Project Operational Manual has been adopted through a joint resolution issued by SAA and SMA and published by the Borrower in form and substance satisfactory to the Bank.

5.02. The Additional Legal Matter consists of the following, namely that that the Loan has been 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 November 25, 2011.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. Except as provided in Section 2.02 of this Agreement, the Borrower’s Representative is its Governor.
6.02. The Borrower’s address is:

Secretaria da Fazenda do Estado de São Paulo
Avenida Rangel Pestana, 300, 5º andar
São Paulo, SP, 01017-911
Brazil

Facsimile: (55-11) 3104-5953

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:

CATI – Coordenadoria de Assistência Técnica Integral - UGP
Avenida Brasil, 2.340 – Jardim Chapadão
Campinas, SP, 13070-178
Brazil

Facsimile: (55-19) 3743-3705

CBRN – Coordenadoria de Biodiversidade e Recursos Naturais
Avenida Professor Frederico Hermann Júnior, 345
São Paulo, SP, 05459-900
Brazil

Facsimile: (55-11) 3032-9473

Secretaria de Agricultura e Abastecimento do Estado de São Paulo
Avenida Miguel Stefano, 3.900
São Paulo, SP, 04301-903
Brazil

Facsimile: (55-11) 5067-0300
Secretaria do Meio Ambiente do Estado de São Paulo
Avenida Professor Frederico Hermann Júnior, 345
São Paulo, SP, 05459-900
Brazil
Facsimile: (55-11) 3133-3177

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: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391

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

STATE OF SÃO PAULO

By /s/ Alberto Goldman

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Makhtar Diop

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to support the Borrower to increase the competitiveness of family agriculture in its territory while improving its environmental sustainability.

The Project consists of the following components:

Component 1. Supporting Small Farmers’ Business Initiatives

Provide support to business initiatives undertaken by small farmers organizations (the Small Farmers) including those of women, youth, and indigenous peoples by:

(a) implementing small sustainable and competitive business investments (Farmers’ Business Initiatives) through grants (the Grants) aimed at increasing Small Farmers’ competitiveness (productivity, quality, value added and marketing) while improving environmentally-sound agricultural practices; and

(b) strengthening producers’ organization regarding agricultural competitiveness through information and training programs to stimulate the emergence of business ideas in targeted municipalities and micro-catchments in the Borrower’s territory, by providing technical assistance for the preparation of business proposals to be funded for Farmers’ Business Initiatives under the Grants (market analysis, feasibility assessments, assistance to informal groups to constitute formal organizations, *inter alia*), as well as by providing technical assistance on organizational, financial, marketing, implementation and monitoring issues under Farmers’ Business Initiatives.

Component 2. Strengthening Institutional and Physical Infrastructure

Provide support to the Borrower’s functions that are critical to the competitiveness and sustainability of family farming in its territory through investments in:

(a) monitoring policy frameworks, markets and rural extension through studies and workshops to improve regulation and incentive systems for family farming competitiveness (labeling systems, and analysis of specific supply-chains, *inter alia*), the setting-up of an online agribusiness information center, and the strengthening the capacity of CATI to advise Small Farmers on production technologies, marketing and
management at central, regional and municipal levels through the provision of training and equipment;

(b) rehabilitating and maintaining municipal rural roads in the Borrower’s territory to help facilitate Small Farmers’ physical access to markets through assistance to the Borrower’s municipalities to prepare simple rural road management programs, financing of grants (when minimum levels of technical, institutional and financial sustainability are met) for infrastructure subprojects (Infrastructure Subprojects) to support rehabilitation and maintenance of priority sections of rural roads as identified in the rural road management programs so as to ensure all-year usability, and supporting units of production of small paving materials; and

(c) promoting environmental sustainability through the mainstreaming of improved environmental practices in rural production systems to ensure the sustainability of the productive resource-base (land and water) by supporting pilot subprojects at farm-level (Environmental Subprojects), implementation of the Borrower’s environmental compliance system in rural areas combined with environmental awareness-raising, and the carrying out of the Borrower’s new program of payments for environmental services to rural areas.

Component 3. Project Management

Provide support to the Borrower to efficiently and effectively implement, administer, supervise, and coordinate all the activities carried out under the Project by financing the institutional structures, equipment and personnel required to manage Project activities, including fiduciary functions (procurement, accounting and financial management) as well as technical planning, implementation of social and environmental safeguard instruments, monitoring and evaluation, dissemination of Project results and implementation of a pro-active communication strategy.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall, through CATI and CBRN (each within their respective area of autonomy and competence), carry out the Project in accordance with the Project Operational Manual, including the Procurement Plan, the Annual Operating Plans, the Environmental Management Framework, the Involuntary Resettlement Framework and the Indigenous Peoples Planning Framework and except as the Bank shall otherwise agree, shall not amend or waive any provision of these documents without the Bank’s prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail.

2. The Borrower shall maintain, until the completion of the execution of the Project, a joint CATI/CBRN Project management unit (the Project Management Unit) physically located in CATI premises and with competent staff in adequate numbers with qualifications and experience satisfactory to the Bank and selected in accordance, as applicable, with the provisions of Section III of this Schedule, including the following key staff: a Project coordinator (from CATI), two technical managers (one from CATI and one from CBRN), a procurement specialist, a financial management specialist, a social safeguard specialist and an environmental safeguard specialist.

3. The Borrower shall maintain, until the completion of the execution of the Project, CATI Regional Units and SMA Regional Units, with competent staff in adequate numbers with qualifications and experience satisfactory to the Bank and selected in accordance, as applicable, with the provisions of Section III of this Schedule.

4. The Borrower shall maintain, until the completion of the execution of the Project, a steering council (the Steering Council) to convene at least once every semester, and shall submit the minutes of said meetings to the Bank.

5. The Borrower shall convene, until the completion of the execution of the Project, a consultative forum (the Consultative Forum) at least once every year, and shall submit the proceedings of said meetings to the Bank.

6. The Borrower shall, at least once a year during Project implementation on or about December 1, commencing on the first such date after the Effective Date,
prepare and furnish to the Bank a plan (the Annual Operating Plan) for the Project’s operation during the following twelve months.

7. The Borrower shall: (a) have all the procurement records and documentation for the Subprojects for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles by independent auditors acceptable to the Bank; (b) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such fiscal year, the procurement audit report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (c) furnish to the Bank such other information concerning said procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.

8. To carry out the Project, the Borrower, through the Project Management Unit, shall sign no later than twelve months after the Effective Date and thereafter maintain and comply with a memorandum of understanding with FUNAI containing terms and conditions approved by the Bank as further specified in the Project Operational Manual. The Borrower, through the Project Management Unit, shall exercise its rights and carry out its obligations under said memorandum of understanding 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 said memorandum of understanding or any of its provisions. In case of any conflict between the terms of said memorandum of understanding and those of this Agreement, the terms of this Agreement shall prevail.

B. Anti-Corruption

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

C. Subprojects

1. The Borrower shall make Grants to Beneficiaries (Small Farmers, Municipalities and Organizations) for Subprojects (Farmers’ Business Initiatives, Infrastructure Subprojects and Environmental Subprojects) in accordance with eligibility criteria and procedures acceptable to the Bank as further detailed in the Project Operational Manual.

2. The Borrower shall, through the Project Management Unit, enter into Grant Agreements appropriate for the carrying out Subprojects, such agreements to be made in accordance with terms of the respective draft set forth in model forms approved by the Bank and included in the Project Operational Manual, in which the Borrower shall obtain rights adequate to protect its interests and those of the Bank, including the right to: (1) suspend or terminate the right of Beneficiaries to
use the proceeds of the Grant, or obtain a refund of all or any part of the amount of the Grant then withdrawn, upon the Beneficiaries’ failure to perform any of its obligations under the Grant Agreement; and (2) require Beneficiaries to: (a) carry out their Subprojects with due diligence and efficiency and in accordance with sound technical, agricultural, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Borrower, the Environmental Management Framework, the Involuntary Resettlement Framework and the Indigenous Peoples Planning Framework; (b) provide, promptly as needed, the resources required for the purpose; (c) procure the goods, works and services to be financed out of the Grant in accordance with the provisions of this Agreement; (d) maintain procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Subprojects and the achievement of their objectives; (e) (i) maintain a simplified financial management system and records in accordance with consistently applied accounting standards acceptable to the Bank for community driven initiatives, both in a manner adequate to reflect the operations, resources and expenditures related to the Subprojects; and (ii) at the Bank’s or the Borrower’s request, have the resulting financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank; (f) enable the Project Management Unit and the Bank to inspect the Subprojects, their operation and any relevant records and documents; and (g) prepare and furnish to the Project Management Unit and the Bank all such information as the Borrower, the Project Management Unit or the Bank shall reasonably request relating to the foregoing.

3. The Borrower shall cause the Project Management Unit to exercise its rights under each Grant Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall ensure that the Project Management Unit not assign, amend, abrogate or waive any Grant Agreement or any of its provisions.

4. The Borrower shall furnish to the Bank for its prior review and approval the first two Farmers’ Business Initiatives, the first two Infrastructure Subprojects and the first two Environmental Subprojects.

D. Safeguards

1. Environmental Management Framework

The Borrower shall, through the Project Management Unit: (a) implement the Project in accordance with the Environmental Management Framework (including
provisions for natural habitats, pest management, forests and chance finding of cultural property); and (b) adopt the procedures detailed in said Environmental Management Framework for environmental screening, evaluation, implementation and monitoring of Subprojects.

2. **Indigenous Peoples Planning Framework**

The Borrower shall through the Project Management Unit: (a) implement the Project in accordance with the Indigenous Peoples Planning Framework; and (b) adopt the procedures detailed in said Indigenous Peoples Planning Framework for screening, evaluation, implementation and monitoring of Subprojects.

3. **Involuntary Resettlement Framework**

The Borrower shall through the Project Management Unit: (a) implement the Project in accordance with the Involuntary Resettlement Framework; and (b) adopt the procedures detailed in said Involuntary Resettlement Framework for screening, evaluation, implementation and monitoring of Subprojects.

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

**A. Project Reports**

1. The Borrower, through the Project Management Unit, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the performance indicators set forth in the Operational Manual. Each Project Report shall cover the period of one calendar year, and shall be furnished to the Bank not later than two months after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six months after the Closing Date.

**B. Financial Management, Financial Reports and Audits**

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than forty-five days after the end of each calendar 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, commencing with the fiscal year in which the first withdrawal was made under the Project. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. Goods, Works and Services (Other than Consultants’ Services) All goods, works and services (other than consultants’ services) required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Services (Other than Consultants’ Services)

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and services (other than consultants’ services) shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Works and Services (Other than Consultants’ Services). The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and services (other than consultants’ services). The Procurement Plan shall specify the circumstances under which such methods may be used.
Procurement Method

- (a) National Competitive Bidding, subject to the following additional procedure, namely, that the bidding documents shall be acceptable to the Bank.
- (b) Shopping
- (c) Direct Contracting
- (d) Community Participation, in accordance with the procedures described in the Project Operational Manual, for the procurement of goods, works and services (other than consultants’ services) under Farmers’ Business Initiatives and Environmental Subprojects.

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) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(b) Least-Cost Selection</td>
</tr>
<tr>
<td>(c) Selection Based on the Consultant’s Qualifications</td>
</tr>
<tr>
<td>(d) Single-Source Selection</td>
</tr>
<tr>
<td>(e) Procedures set forth in Paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(f) Sole Source Procedures 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) Farmers’ Business Initiatives Subproject under Component 1(a) of the Project</td>
<td>32,000,000</td>
<td>100% of Grants disbursed for such Subprojects</td>
</tr>
<tr>
<td>(2) Infrastructure Subprojects under Component 2(b) of the Project</td>
<td>14,480,000</td>
<td>100% of Grants disbursed for such Subprojects</td>
</tr>
<tr>
<td>(3) Environmental Subprojects under Component 2(c) of the Project</td>
<td>5,888,000</td>
<td>100% of Grants disbursed for such Subprojects</td>
</tr>
<tr>
<td>(4) Goods, Works, Consultants’ Services, Services (Other than Consultants’ Services) and Training for Project Components except for Subprojects under 1(a), 2(b) and 2(c) of the Project</td>
<td>23,887,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Operating Costs for Project Components except for Subprojects under 1(a), 2(b) and 2(c) of the Project</td>
<td>1,550,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Front-end Fee</td>
<td>195,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
</tbody>
</table>
(7) 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 AMOUNT | 78,000,000 |

3. For the purposes of this table:
   
   (a) the term “Operating Costs” means the operational costs (which would not have occurred absent the Project, including, *inter alia*, equipment and computer maintenance, office supplies, utilities, and rent for office facilities) and the supervision and monitoring costs of the Project incurred by the Project Management Unit, CATI, CBRN, and the Steering Council and the Consultative Forum under the Project (including, *inter alia*, travel, per diem, accommodation, operation and maintenance of vehicles, repairs, fuel, spare parts and insurance, maintenance of the monitoring and information system, supervisory and quality control activities, but excluding expenditures for salaries and related benefits);
   
   (b) the term “Training” means the costs, which would not have occurred absent the Project, including, *inter alia*, information workshops and training programs, assistance to informal groups of farmer organizations, setting up of on-line agri-business information center, equipment required for training purposes and the travel, per diem and accommodation costs for technical staff the Project Management Unit, CATI, CBRN, and Beneficiaries carrying out training, but excluding expenditures for salaries and related benefits; and
   
   (c) the term “Services (Other than Consultants’ Services)” means the costs of services which are not consultants’ services, including, *inter alia*, the costs of surveys, data collection and processing, printing services, publications and dissemination activities.

B. Withdrawal Conditions; Withdrawal Period

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

   (a) 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 prior
to such date for Eligible Expenditures under Categories (1) through (5); and

(b) under Category (1) unless the Bank has received an adequate legal framework for the operation of the Farmers’ Business Initiatives, in form and substance satisfactory to the Bank.

2. The Closing Date is September 30, 2015. The Bank shall only grant an extension of the Closing Date after the Guarantor’s Ministry of Finance has informed the Bank that it agrees with such extension.

Section V. Other Undertakings

By February 28, 2013, or such other date as the Bank shall agree upon, the Borrower shall:

1. carry out jointly with the Bank, a mid-term review of the implementation of operations under the Project (Midterm Review). The Midterm Review shall cover the progress achieved in the implementation of the Project; and

2. following such Midterm Review, act promptly and diligently to take any corrective action as shall be recommended by the Bank.
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 June 15 and December 15</td>
<td>2%</td>
</tr>
<tr>
<td>Beginning June 15, 2015</td>
<td></td>
</tr>
<tr>
<td>Through December 15, 2039</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.
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. “Annual Operating Plan” means an annual operating plan to be prepared by the Borrower on or about December 1 each Project year as per Section I. A. 6 of Schedule 2 to this Agreement.


3. “Beneficiaries” means collectively Small Farmers, Municipalities or Organizations established in accordance with the Borrower’s and the Guarantor’s law, whose Subprojects have been found eligible in accordance with the criteria set forth in the Project Operational Manual, that have applied for financing and have received or are to receive a Grant under a Grant Agreement to be executed under, respectively, Components 1(a), 2(b) and 2(c) of the Project.

4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

5. “CATI” means Coordenadoria de Assistência Técnica Integral, the Borrower’s directorate of rural extension within the Borrower’s Secretariat of Agriculture and Supply, as created and operating under the Borrower’s Decree No. 41.608, dated February 24, 1997.

6. “CATI Regional Units” means Escritórios de Desenvolvimento Rural, the regional units of CATI, as created and operating under the Borrower’s Decree No. 41.608, dated February 24, 1997.

7. “CBRN” means Coordenadoria de Biodiversidade e Recursos Naturais, the Borrower’s directorate for biodiversity and natural resources within the Borrower’s Secretariat of Environment, as created and operating under the Borrower’s Decree No. 54.653, dated August 6, 2009.

8. “CBRN Regional Units” means Centros Técnicos Regionais, the regional technical units of CBRN, as created and operating under the Borrower’s Decree No. 54.653, dated August 6, 2009.

10. “Consultative Forum” means a forum (*Forum Consultivo*) referred to in the Project Operational Manual in charge of providing a discussion forum for the Project and comprising, inter alia, representatives from the Small Farmers, agribusiness associations, civil society groups, indigenous peoples, academic institutions, municipalities and the private sector, SAA, CATI, SMA, CBRN, the Borrower’s Secretariat of Planning, and the Borrower’s Secretariat of Finance.

11. “Environmental Management Framework” means the document dated November 2009, as published and available to the public on the websites www.cati.sp.gov.br and www.ambiente.sp.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, as said framework may be amended from time to time with the Bank’s prior approval.

12. “Environmental Subprojects” means eligible subprojects as selected and approved by the Project Management Unit in accordance with relevant provisions of the Project Operational Manual and to be partly financed with a Grant under a Grant Agreement for the activities set forth in Component 2(c) of the Project and to be carried out by an Organization within the territory of Borrower.

13. “Farmers’ Business Initiatives” means eligible subprojects of the Project as selected and approved by the Project Management Unit in accordance with relevant provisions of the Project Operational Manual and to be partly financed with a Grant under a Grant Agreement for the activities set forth in Component 1(a) of the Project and to be carried out by Small Farmers within the territory of Borrower.

14. “FUNAI” means Fundação Nacional do Índio, the Guarantor’s national agency for indigenous peoples, as created and operating under the Guarantor’s Law No. 5371 dated December 5, 1967.

15. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.

16. “Grant Agreements” means agreements entered into between the Borrower, through the Project Management Unit and Beneficiaries as referred to in Section I.C of Schedule 2 to this Agreement, for the financing and implementation of Subprojects.
17. “Grants” means grants to be made by the Borrower to Small Farmers, Municipalities or Organizations (Beneficiaries), under Components 1(a), 2(b) and 2(c) of the Project for the financing of eligible Subprojects in the Borrower’s territory to cover part of the cost of said Subprojects.

18. “Indigenous Peoples Planning Framework” means the document dated October, 2009, published and available to the public on the website www.cati.sp.gov.br, which contains the principles and protection measures in respect of indigenous peoples that shall apply to the preparation and carrying out the Project including any Subproject, as said framework may be amended from time to time with the Bank’s prior approval.

19. “Infrastructure Subprojects” means eligible subprojects as selected and approved by the Project Management Unit in accordance with relevant provisions of the Project Operational Manual and to be partly financed with a Grant under a Grant Agreement for the activities set forth in Component 2(b) of the Project and to be carried out by a Municipality within the territory of Borrower.

20. “Involuntary Resettlement Framework” means the document dated November 2008, published and available to the public on the website www.cati.sp.gov.br, 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.

21. “Municipalities” means municipalities in the territory of the Borrower, established in accordance with the Borrower’s and the Guarantor’s law, whose Infrastructure Subprojects have been found eligible in accordance with the criteria set forth in the Project Operational Manual, that have applied for financing and have received or are to receive a Grant under a Grant Agreement to be executed under Component 2(b) of the Project.

22. “Organizations” means producers’ associations, cooperatives or environmental associations with legal personality established in accordance with the Borrower’s and the Guarantor’s law, whose Farmers’ Business Initiative or/and Environmental Subprojects have been found eligible in accordance with the criteria set forth in the Project Operational Manual, that have applied for financing and have received or are to receive a Grant under a Grant Agreement to be executed under, respectively, Component 1(a) or Component 2(c) of the Project.

24. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 10, 2010 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.

25. “Project Management Unit” means a joint CATI/CBRN management unit operating under the coordination of CATI and located in the premises of CATI, to be created through a decree to be adopted and published by the Borrower pursuant to Section 5.01(a) of this Agreement.

26. “Project Management Unit’s Regulation” means the Borrower’s decree in form and substance satisfactory to the Bank to be adopted and published for the creation of the Project Management Unit.

27. “Project Operational Manual” means the operational manual for the Project, satisfactory to the Bank, to be adopted by the Borrower through a joint resolution, which shall contain, inter alia: (i) the terms of reference, functions and responsibilities for the personnel of the Project Management Unit in charge of daily Project coordination and monitoring; (ii) the procedures for procurement of works, goods, services (other than consultants’ services) and consultants’ services for the Project and for the Subprojects, as well as for financial management and audits (i.e. financial audit and procurement audit) of the Project and of the Subprojects; (iii) flow and disbursement arrangements of Project funds; (iv) the eligibility criteria for the Subprojects, their selection and approval processes, the Restrictive List, as well as model forms for Grant Agreements; (v) the staffing plan for the Project Management Unit; (vi) the Environmental Management Framework, the Involuntary Resettlement Framework and the Indigenous Peoples Planning Framework; (vii) the procedures for the screening, evaluation and monitoring of Subprojects, including under the Environmental Management Framework, the Involuntary Resettlement Framework and the Indigenous Peoples Planning Framework; and (viii) the monitoring and impact evaluation strategy.

28. “Restrictive List” means a list of activities to be annexed to the Project Operational Manual and detailing all the types of Farmers’ Business Initiatives which cannot benefit from Grants under the Project.

29. “SAA” means Secretaria de Agricultura e Abastecimento do Estado de São Paulo, the Borrower’s Secretariat of Agriculture and Supply.

30. “SMA” means Secretaria do Meio Ambiente do Estado de São Paulo, the Borrower’s Secretariat of Environment.

31. “Small Farmers” means family farmers and Organizations with common interests, legally constituted in accordance with the Borrower’s and the
Guarantor’s law, whose Farmers’ Business Initiative has been found eligible in accordance with the criteria set forth in the Project Operational Manual, and that have applied for financing and have received or are to receive a Grant under a Grant Agreement to be executed under Component 1 of the Project.

32. “Steering Council” means a council (Conselho de Orientação) to be created through a decree to be adopted and published by the Borrower pursuant to Section 5.01 (a) of this Agreement in charge of the general oversight of the Project, including strategic decisions and comprising, inter alia, representatives from SAA, SMA, the Borrower’s Secretariat of Planning, and the Borrower’s Secretariat of Finance.

33. “Subprojects” means collectively Farmers’ Business Initiatives, Infrastructure Subprojects and Environmental Subprojects, all eligible subprojects under the Project as selected and approved by the Project Management Unit in accordance with relevant provisions of the Project Operational Manual and to be partly financed with a Grant under a Grant Agreement for the activities set forth, respectively under Components 1 (a); 2(b); and 2(c) of the Project and to be carried out by Beneficiaries within the territory of Borrower.

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 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.”