Loan Agreement

(Teresina Enhancing Municipal Governance and Quality of Life Project – Programa Lagoas do Norte)

between

MUNICIPALITY OF TERESINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 24, 2008
LOAN AGREEMENT

Agreement dated July 24, 2008, between the MUNICIPALITY OF TERESINA ("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 one million one hundred thirty thousand Dollars ($31,130,000), 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.

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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 August 1 and February 1 in each year.
2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

2.07. (a) The Borrower may at any time, in each case with the prior no-objection of the Guarantor, through the Secretariat of 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 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 4.04 (c) of the General Conditions up to the amount allocated from time to time to 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 SEMPLAN 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

4.01. The Additional Legal Matter consists of the following, namely that the Loan has been validly registered by the Guarantor’s Central 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 September 28, 2009.

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 Teresina
Praça Marechal Deodoro, 860, Centro
64000-160 – Teresina, PI
Brasil

Facsimile:

(55-86) 3215-7522

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 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)
AGREED at the District of Columbia, United States of America, as of the day and year first above written.

MUNICIPALITY OF TERESINA

By /s/ Sílvio Mendes de Oliveira Filho

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to modernize and improve the management capacity of the Borrower in the financial, urban, environmental, service-delivery, and economic development fields and to improve the quality of life of the low-income population of the Lagoas do Norte Region.

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: Municipal Management Modernization, City Development, and Project Management

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

(i) consolidating and improving the efficiency of the Borrower’s financial and budget management and planning capacity;

(ii) modernizing the water supply and sanitation service delivery to comply with the WSS Law, including, *inter alia*: (a) the preparation and dissemination of a municipal integrated water supply and sanitation plan; (b) the creation and strengthening of a municipal water supply and sanitation regulating body; and (c) the formalization of the water supply and sanitation service delivery mechanism for the Borrower’s territory consistent with the WSS Law;

(iii) modernizing the Borrower’s education management, including, *inter alia*, the elaboration and implementation of a new education policy for the Borrower;

(iv) modernizing the Borrower’s urban and environmental management, including: (a) the preparation of the Borrower’s municipal urban, transport, drainage and solid waste management master plans and the elaboration of new or updated laws to accompany the finalization of these plans; (b) the development of consolidated strategies for enforcing existing legal and administrative mechanisms required to regularize slums and other irregular settlements, and for facilitating access to land; and (c) strengthening the Borrower’s environmental management capacity, including the introduction of an environmental licensing and enforcement control system.
(v) developing and implementing a local economic development (LED) strategy for the Borrower; and

(vi) carrying out Project management, monitoring and evaluation, to support the PMU to carry out the procurement, financial management, environmental, social and other requirements of the Project.

Part 2: Integrated Urban-Environmental Development

Carrying out of activities to improve the delivery of basic urban services and the overall environmental conditions in the Lagoas do Norte Region, including, inter alia:

(i) interventions to optimize and expand water supply delivery;

(ii) implementation of wastewater collection, transmission and treatment systems;

(iii) execution of critical urban macro-and micro-drainage interventions;

(iv) actions to recuperate the natural environmental aspects of the region’s lagoon and canal network, and the adjacent banks of the Parnaíba and Poti rivers;

(v) interventions in urban upgrading, and the rehabilitation and construction of green spaces, parks, and leisure and community spaces;

(vi) interventions to improve the local road network, traffic flow, access and safety in the region; and

(vii) undertaking resettlement of beneficiary families from areas of risk and from other areas of Project intervention, and implementing housing improvements for other eligible households.

Part 3: Social and Economic Development

Carrying out of complementary interventions to Part 2 of the Project, including, inter alia:

(i) actions to strengthen community associations and other community groups in order to improve the access of eligible families to the Project’s social programs, crèches, basic health and education services, etc;

(ii) undertaking of environmental and sanitary education and promotion activities;
(iii) promotion of employment and income creation programs;

(iv) renovation, expansion and construction of community facilities; and

(v) promotion of community mobilization and participation in all aspects of Part 2 and Part 3 of the Project.
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, until completion of the Project:

(a) a unit within SEMPLAN, to be responsible for the overall coordination and implementation of the Project (the “PMU”), such PMU to maintain staffing, functions and responsibilities satisfactory to the Bank as set forth in the Operational Manual, including inter alia, the following responsibilities:

(i) overall planning, coordination and monitoring of Project activities;

(ii) carrying out of Project procurement and contracting of the required works, goods and consultant’s services;

(iii) elaboration of the annual operational plans;

(iv) carrying out of the financial management of the Project;

(v) preparation and submission to the Bank of: (A) disbursement requests; and (B) Project information and Project management reports in accordance with the format established in the Operational Manual; and

(vi) provision of assistance and documentation to external independent auditors; and

(b) a Project Steering Committee, presided by the Borrower’s Mayor or its designated representative, with the overall responsibility for providing policy oversight and guidance for the implementation of the Project and with powers and composition acceptable to the Bank as set forth in the Operational Manual (the “PSC”). The PSC shall be responsible, inter alia, for:

(i) provision of support and establishment of strategic guidelines for the implementation of the Project;
(ii) inter-institutional coordination and establishment of strategic alliances with other stakeholders;

(iii) review and approval of the annual operation plans for the Project; and

(iv) review of the annual auditing reports of the Project.

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, structure and composition of the PMU;

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

(c) the Performance Indicators; and

(d) the Environmental Assessment and the Resettlement Policy Framework.

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. 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 Environmental Assessment, the Resettlement Policy Framework, the resulting Resettlement Plans and the procedures outlined in the Operational Manual, when applicable.

2. Prior to initiating any bidding procedure for works under the Project, the Borrower shall, when applicable, submit to the Bank, for its review and approval: (i) a Resettlement Plan for the population affected by the relevant works, to be prepared in accordance with the Resettlement Policy Framework; and (ii) such other information as the Bank shall reasonably request, including the requisite environmental licensing.
3. The Borrower shall ensure that any contractors that will carry out civil works under the Project shall perform their work in accordance with the technical, environmental and social practices for the Project, as set forth in the Environmental Assessment and respective EMP.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

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.

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, as part of the Project Report, 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. 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.
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.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding, subject to the following additional procedures:</td>
</tr>
<tr>
<td>(i) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.52 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;</td>
</tr>
<tr>
<td>(ii) whenever required by the Bank, the invitation to bid shall be advertised in at least one newspaper of national circulation in Brazil;</td>
</tr>
<tr>
<td>(iii) the arrangements, under the invitation to bid, for joint-ventures (<em>consórcios</em>) of Brazilian and foreign firms shall be approved in advance by the Bank in each case;</td>
</tr>
</tbody>
</table>


**Procurement Method**

(iv) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

(v) the purchaser shall not, without the Bank’s prior approval, 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.

(b) Shopping (including, in respect of goods and non-consultant services, *pregão eletrônico* set forth in the Guarantor’s Law No. 10520, of July 17, 2002).

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**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 Based on the Consultants’ Qualifications (CQS)</td>
</tr>
<tr>
<td>(b) Single-Source Selection (SSS)</td>
</tr>
<tr>
<td>(c) Selection under a Fixed Budget (FBS)</td>
</tr>
<tr>
<td>(d) Least-Cost Selection (LCS)</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) Quality-Based Selection</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: (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.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>21,939,000</td>
<td>86%</td>
</tr>
<tr>
<td>(2) Goods and Non-consultant services</td>
<td>2,910,000</td>
<td>92%</td>
</tr>
<tr>
<td>(3) Consultants services</td>
<td>4,396,000</td>
<td>89%</td>
</tr>
<tr>
<td>(4) Unallocated</td>
<td>1,807,175</td>
<td></td>
</tr>
<tr>
<td>(5) Premia for Interest Rate Caps and Interest Rate Collars</td>
<td>0</td>
<td>Amount due under Section 2.07 (c) of this Agreement in accordance with Section 4.04 of the General Conditions</td>
</tr>
<tr>
<td>(6) Front-end Fee</td>
<td>77,825</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>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td>31,130,000</td>
<td></td>
</tr>
</tbody>
</table>
For the purposes of this table, the term “Non-consultant services” means the reasonable expenditures (none of which would have been incurred absent the Project), incurred by the Borrower for the implementation, management, coordination and supervision of the Project, including: (i) logistics for workshops and training courses; (ii) topographic surveys and mapping; (iii) undertaking and updating municipal cadastres; and (iv) printing and publishing services.

B. Withdrawal Conditions; Withdrawal Period

The Closing Date is July 31, 2013. 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 August 1 and February 1:</td>
<td></td>
</tr>
<tr>
<td>Beginning August 1, 2013</td>
<td>2.5%</td>
</tr>
<tr>
<td>through February 1, 2033</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. "Category" means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.


3. “EMP” means the Environmental Management Plan, as referred to in point 4 below.

4. “Environmental Assessment” means the Borrower’s assessment of the Project environmental and social impacts, dated March 2007, including provisions regarding protection of natural habitats, protection of physical cultural resources and safety of dams and including an Environmental Management Plan with recommended mitigation measures for each negative impact identified, as such plan may be amended from time to time with the prior approval of the Bank.

5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005, with the modifications set forth in Section II of this Appendix.


7. “Operational Manual” means the manual referred to in Section I.B of Schedule 2 to this Agreement, dated February 2008, as the same may be amended from time to time with the agreement of the Bank.

8. “Performance Indicators” means the indicators to be used in the monitoring and evaluation of the Project.

9. “PMU” means the Unidade de Gerenciamento do Programa Lagoas do Norte-UGP, the unit referred to in Section I.A.1 (a) of Schedule 2 to this Agreement, established pursuant to the Borrower’s Decree No. 6.028, dated July 2, 2004, as annually renewed.

11. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 20, 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.

12. “PSC” means the Project Steering Committee, the committee referred to in Section I.A.1 (b) of Schedule 2 to this Agreement.

13. “Resettlement Plan” means any plan prepared following the requirements of the Resettlement Policy Framework and approved by the Bank.

14. “Resettlement Policy Framework” means the Borrower’s document dated March 2007, defining the procedures for the involuntary resettlement of the population in the event it is required in connection with the activities to be carried out under the Project, as said framework may be amended form time to time with the Bank’s prior approval.

15. “SEMPLAN” means Secretaria Municipal de Planejamento e Coordenação, the Borrower’s Secretariat of Planning or its successor or successors thereto.

16. “WSS Law” means the Guarantor’s water supply and sanitation Law No. 11.445, dated January 5, 2007, published in the Guarantor’s Official Register No. 5 on January 8, 2007, as it may have been amended to the date of this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 2.07 (b) shall read as follows:

“Except as otherwise provided in the Loan Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account on or after the Effective Date and pay to itself the amount of the Front-end Fee payable pursuant to Section 3.01.”

2. Section 3.01 shall read as follows:

“Section 3.01. Front-end Fee. The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the “Front-end Fee”).”

3. A new paragraph (d) is added to Section 3.02, at the end thereof, which shall read as follows:
“Section 3.02. Interest

(d) Notwithstanding the provisions of paragraph (a) of this Section, 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 Borrower shall pay the Default Interest Rate on such overdue amount in lieu of the interest rate specified in the Loan Agreement (or such other interest rate as may be applicable pursuant to Article IV as a result of a Conversion) until such overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the first day of each Default Interest Period and shall be payable semi-annually in arrears on each Payment Date.”

4. APPENDIX – Definitions:

4.01. Definition (19) “Commitment Charge” is deleted.

4.02. Definition (40) “Fixed Spread” shall read as follows:

“Fixed Spread” means the Bank’s fixed spread for the initial Loan Currency in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement; provided, that upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance, such fixed spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines; and provided further that notwithstanding the foregoing, for purposes of determining the Default Interest Rate applicable to an amount of the Withdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount.”

4.03. Definition (43) “Front-end Fee” shall read as follows:

“Front-end Fee” means the fee specified in the Loan Agreement for the purpose of Section 3.01.”

4.04. Definition (56) “LIBOR Reset Date” shall read as follows:

“LIBOR Reset Date” means:

(a) for any Loan Currency other than Euro, the day two London Banking Days prior to the first day of the relevant Interest Period (or: (i) in the case of the initial Interest Period of a Variable Spread Loan, the day two London Banking Days prior to the fifteenth day of the month preceding the month in which the Loan Agreement is signed; provided that if the date of the Loan Agreement falls on or after the fifteenth day of the month in which the Loan Agreement is signed, the LIBOR Reset Date shall be the day two London Banking Days prior to the fifteenth day of such month; (ii) in the case of the Initial Interest Period of a Fixed
Spread Loan, the day two London Banking Days prior to the first or fifteenth day of the month in which the Loan Agreement is signed, whichever day immediately precedes the date of the Loan Agreement; provided, that if the date of the Loan Agreement falls on the first or fifteenth day of such month, the LIBOR Reset Date shall be the day two London Banking Days prior to the date of the Loan Agreement; and (iii) if the Conversion Date of a Currency Conversion of an amount of the Unwithdrawn Loan Balance to any Approved Currency other than Euro falls on a day other than a Payment Date, the initial LIBOR Reset Date for the Approved Currency shall be the day two London Banking Days prior to the first or fifteenth day of the month in which the Conversion Date falls, whichever day immediately precedes the Conversion Date; provided, that if the Conversion Date falls on the first or fifteenth day of such month, the LIBOR Reset Date for the Approved Currency shall be the day two London Banking Days prior to the Conversion Date);

(b) for Euro, the day two Target Settlement Days prior to the first day of the relevant Interest Period (or: (i) in the case of the initial Interest Period for a Variable Spread Loan, the day two Target Settlement Days prior to the fifteenth day of the month preceding the month in which the Loan Agreement is signed; provided that if the date of the Loan Agreement falls on or after the fifteenth day of the month in which the Loan Agreement is signed, the LIBOR Reset Date shall be the day two Target Settlement Days prior to the fifteenth day of such month; (ii) in the case of the Initial Interest Period for a Fixed Spread Loan, the day two Target Settlement Days prior to the first or fifteenth day of the month in which the Loan Agreement is signed, whichever day immediately precedes the date of the Loan Agreement; provided that if the date of the Loan Agreement falls on the first or fifteenth day of such month, the LIBOR Reset Date shall be the day two Target Settlement Days prior to the date of the Loan Agreement; and (iii) if the Conversion Date of a Currency Conversion of an amount of the Unwithdrawn Loan Balance to Euro falls on a day other than a Payment Date, the initial LIBOR Reset Date for the Approved Currency shall be the day two Target Settlement Days prior to the first or fifteenth day of the month in which the Conversion Date falls, whichever day immediately precedes the Conversion Date; provided that if the Conversion Date falls on the first or fifteenth day of such month, the LIBOR Reset Date for the Approved Currency shall be the day two Target Settlement Days prior to the Conversion Date); and

(c) notwithstanding sub-paragraphs (a) and (b) of this paragraph, if, for a Currency Conversion to an Approved Currency, the Bank determines that market practice for the determination of the LIBOR Reset Date is on a date other than as set forth in said sub-paragraphs, the LIBOR Reset
Date shall be such other date, as further specified in the Conversion Guidelines.”

4.05. Definition (63) “Loan Payment” shall read as follows:

“Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

4.06. Definition (68) “Payment Date” shall read as follows:

“Payment Date” means each date specified in the Loan Agreement occurring on or after the date of the Loan Agreement on which interest is payable.”

4.07. The following definitions are added to the Appendix at the end thereof:

“Default Interest Period” means for any overdue amount of the Withdrawn Loan Balance, each Interest Period during which such overdue amount remains unpaid; provided, however, that the first such Default Interest Period shall commence on the 31st day following the date on which such amount becomes overdue, and the final such Default Interest Period shall end on the date at which such amount is fully paid.”

“Default Interest Rate” means for any Default Interest Period:

(a) in the case of a Variable Spread Loan: Default LIBOR plus the Variable Spread plus one half of one percent (0.5%);

(b) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies was payable at a Variable Rate immediately prior to the application of the Default Interest Rate: the Default Variable Rate plus one half of one percent (0.5%); and

(c) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies was payable at a Fixed Rate immediately prior to the application of the Default Interest Rate: Default LIBOR plus the Fixed Spread plus one half of one percent (0.5%).”

“Default LIBOR” means LIBOR for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default LIBOR shall be equal to
LIBOR for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.”

“Default Variable Rate” means the Variable Rate for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default Variable Rate shall be equal to the Variable Rate for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.”