

LOAN NUMBER 8302-BR

Loan Agreement

(Operation to Strengthen Service Delivery for Growth, Poverty Reduction, and
Environmental Sustainability in the State of Ceará -
*Projeto de Apoio ao Crescimento Econômico com Redução das Desigualdades e
Sustentabilidade Ambiental do Estado do Ceará – PforR Ceará*)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF CEARÁ

Dated *December 19*, 2013



LOAN AGREEMENT

Agreement dated December 19, 2013, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and STATE OF CEARÁ ("Borrower"). The Bank and the Borrower hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions for the Program and the General Conditions for the Project (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 three hundred fifty million Dollars (\$350,000,000), out of which: (a) the amount of three hundred fifteen million Dollars (\$315,000,000) shall be allocated to the Program part of the Operation (the **Program Loan**), and (b) the amount of thirty five million Dollars (\$35,000,000) shall be allocated to the Project part of the Operation (the **Project Loan**), as any of such amounts may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement, to assist in financing the Operation.
- 2.02. The Borrower may withdraw the proceeds of the **Program Loan** and the **Project Loan** in accordance with each Section IV of Schedules 2 and 3 to this Agreement, respectively. All withdrawals from the **Program Loan Account** shall be deposited by the Bank into an account specified by the Borrower and acceptable to the Bank. 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 Planning and Management (*Secretário do Planejamento e Gestão*).
- 2.03. The Front-end Fee payable by the Borrower shall be equal to: (a) one quarter of one percent (0.25%) of the **Program Loan** amount; and (b) one quarter of one percent (0.25%) of the **Project 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 **Program Loan Currency** or **Project Loan**



Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the **Program Loan** or **Project 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 respective General Conditions. Notwithstanding the foregoing, if any amount of the **Withdrawn Program Loan Balance** or **Withdrawn Project 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 respective General Conditions.

- 2.05. The Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the **Program Loan** and the **Project Loan** shall be repaid in accordance with the provisions of Schedule 4 to this Agreement.
- 2.07. (a) The Borrower may at any time, in each case with 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 **Program Loan** and/or the **Project 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 **Program Loan** and/or the **Project Loan**, withdrawn and unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the **Program Loan** and/or the **Project Loan** withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the **Program Loan** and/or the **Project Loan** withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the **Program Loan** and/or the **Project Loan** withdrawn and outstanding 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 or the Reference Rate applicable to all or any portion of the principal amount of the **Program Loan** and/or the **Project Loan** withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference 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 respective General Conditions, and shall be effected in accordance with the provisions of Article IV of the respective General Conditions and of the Conversion Guidelines.



ARTICLE III — OPERATION

- 3.01. The Borrower declares its commitment to the objective of the Operation. To this end, the Borrower shall:
- (a) carry out the Operation; and
 - (b) cause Participating Agencies to assist the Borrower in the carrying out of selected activities under the Operation that fall under their administrative jurisdiction, as follows: (i) ADECE to participate in activities under Part I.1 of the Operation; (ii) CAGECE to carry out activities under Part I.3 of the Operation; and (ii) COGERH to carry out activities under Part I.3 of the Operation;
- all in accordance with the provisions of Article V of the respective 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 Operation is carried out in accordance with the provisions of Schedules 2 and 3 to this Agreement, as applicable.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consists of the following, namely that any Participating Agency shall have failed to comply with any of its obligations under the respective Participating Agency Agreement, so as to affect materially and adversely, in the opinion of the Bank, the Borrower's ability to perform its obligations under this Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in paragraph 4.01 of this Agreement occurs and is continuing for a period of 90 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following, namely, that the ADECE Participating Agency Agreement, the CAGECE Participating Agency Agreement, and the COGERH Participating Agency Agreement have been entered into between the Borrower and the respective Participating Agency.



5.02. The Additional Legal Matters consist of the following:

- (a) the Borrower, through a legal opinion satisfactory to the Bank, issued by the Borrower's counsel acceptable to the Bank, indicates that the ADECE Participating Agency Agreement, the CAGECE Participating Agency Agreement, and the COGERH Participating Agency Agreement have been duly authorized or ratified by, executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its respective terms;
- (b) ADECE, CAGECE, and COGERH, through a legal opinion satisfactory to the Bank, issued by ADECE, CAGECE, and COGERH's respective counsels, acceptable to the Bank, indicate that its respective Participating Agency Agreement has been duly authorized by, and executed and delivered on behalf of, ADECE, CAGECE, and COGERH, and is legally binding upon ADECE, CAGECE, and COGERH, all as the case may be, in accordance with its respective terms.
- (c) The Program Loan and Project Loan have 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 Operation which expire on May 21, 2015.

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 do Planejamento e Gestão do Estado do Ceará
Centro Administrativo Gov. Virgílio Távora
Av. General Afonso Albuquerque Lima, s/n
Ed. SEPLAG, 3º. Andar
Cambeba
60830-900 Fortaleza, CE
Brazil
Facsimile: (55-85) 3101-4518



With copy 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

Secretaria de Estado da Fazenda – SEFAZ
Avenida Alberto Nepomuceno, 2 – Centro
60000-050 Fortaleza, CE
Brazil

Facsimile:
(55-85) 3101-9134

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

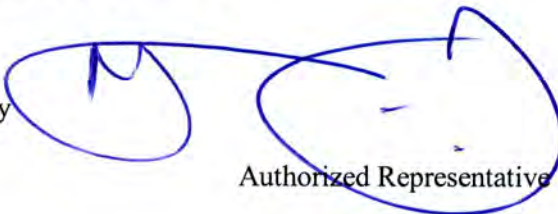


AGREED at Brasília, Federative Republic of Brazil, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By 
Authorized Representative

STATE OF CEARÁ

By 
Authorized Representative



SCHEDULE 1

Operation Description

The objective of the Operation is to support the Borrower to improve public service delivery, particularly in the areas of skills development, family assistance and water quality.

The Operation consists of the following:

Part I: The Program

The Program consists of the following selected subprograms and activities set forth in the PPA:

1. **Skills Development:** Carrying out of the Borrower's subprogram on secondary professional education, through:
 - (a) the maintenance and operation of the Borrower's professional training schools;
 - (b) the construction, expansion and refurbishing of the Borrower's professional training schools, including the acquisition of equipment, vehicles, and/or the adaptation of technology laboratories in selected schools; and
 - (c) the acquisition and printing of teaching materials, support for research and the provision of scholarships to selected students.
2. **Family Assistance:** Carrying out of the Borrower's subprograms on family assistance, by expanding PAIF through CRAS.
3. **Water Quality:** Carrying out of the Borrower's subprogram on water quality, through:
 - (a) the development and implementation of a water security plan for the Watersheds;
 - (b) the expansion of household connections to existing sewerage networks in the metropolitan region of *Fortaleza* and in the *Acaraú* and *Salgado* basins;
 - (c) the preparation and implementation of solid waste management plans in the Borrower's territory; and



- (d) the strengthening of hydro-environmental prediction and monitoring systems.

Part II: Technical Assistance (the Project)

Strengthening the Borrower's capacity in:

1. Cross-cutting Public Sector Management, by, *inter alia*:

- (a) Strengthening results based management by designing incentives and mechanisms for coordinating the Borrower's secretariats' role in carrying out the Operation.
- (b) Designing and implementing investment planning and costing methodologies.
- (c) Carrying out of a payroll audit, providing recommendations to strengthen payroll processes and controls, assessing and redesigning human resource management; reforming budget preparation and execution procedures, including the design of an internal coordination and validation mechanisms for revenue forecasts.
- (d) Strengthening citizen participation and monitoring to leverage the Borrower's capacity to better identify citizen's demands for policies and services, including evaluating the current participatory practices under the PPA, including the design of methodologies to optimize the participatory process, and of strategies and technological solutions to enable third party monitoring of the Borrower's subprograms on skills development and family assistance.
- (e) Strengthening the Borrower's capacity for coordinating the Operation through IPECE, including building IPECE's capacity on managing procurement and carrying out financial management under the Operation, as the case may be, including the development of a monitoring system and, to CGE, the provision of support for the carrying out of technical audits of DLI compliance under the Program.

2. Sector Specific Public Sector Management, on:

- (a) **Skills development**, by, *inter alia*, improving the design, monitoring and evaluation of the Borrower's programs related to vocational education and innovation, including:



- (i) the collection of data on program processes, outputs and outcomes;
 - (ii) the carrying out of an assessment of the institutional framework and management practices within the secondary vocational training system and the design of a training program for instructors, teachers and directors, and the provision of entrepreneurship training, student support services and student testing; and
 - (iii) the design and implementation of a private sector development strategy to support the growth of the Borrower's productive sector.
- (b) **Family Assistance and poverty reduction**, by, *inter alia*:
- (i) Designing and implementing a training program for municipal ECD coordinators in techniques for coaching *crèches* and pre-school instructors, and for school principals in management, all with emphasis on results based management and pedagogy.
 - (ii) Developing, implementing, monitoring and evaluating a pilot home-based parenting program (*Programa de Acompanhamento do Desenvolvimento Infantil – PADIN*) aimed at training parents and caregivers in providing better cognitive and language stimulation to children under five years old, including the provision of training required therefor.
 - (iii) Monitoring and building capacity for the CRAS by strengthening their ability to target families in need and oversee program implementation, including the provision of training required therefor.
 - (iv) Strengthening the monitoring and result-based management of FECOP-financed programs, with emphasis on activities related to family assistance.
 - (v) Analyzing the impact of health policies on social inequality.
- (c) **Water quality**, by, *inter alia*:
- (i) (A) Evaluating and providing recommendations for improving the legal and institutional framework for water management in the Borrower's territory, including the development of mechanisms for participatory watershed management; (B)



carrying out of an environmental assessment of the Borrower's policies and programs for water security plans; (C) classifying the Borrower's reservoirs by use and water quality objective; (D) designing a methodology for modeling water quality in the Borrower's territory; and (E) strengthening the Borrower's capacity to monitor water quality, including the carrying out of an assessment of water quality laboratories and equipment and of participatory water management.

- (ii) (A) Strengthening municipal environmental agencies in the Watersheds by providing training to municipal technical staff and identifying necessary regulatory instruments; (B) assessing the economic impact of environmental degradation and climate change; (C) providing advice on draft legislation to support the emergence of a market for environmental services in the Borrower's territory; and (D) strengthening capacity to monitor compliance with environmental legislation and apply infractions.
- (iii) (A) Preparing recovery plans to mitigate the environmental liabilities associated with degraded open air dumps; (B) designing and implementing a recycling program in the Watersheds; and (C) assessing and advising on improvements in the structure of solid waste management regulations in the Borrower's territory.

3. Strengthening Fiduciary Systems

- (a) Supporting the Borrower's adoption of international public sector accounting standards through: (i) the provision of training for selected Borrower's staff; (ii) the distribution of an accounting manual to selected Borrower's staff; (iii) the carrying out of a staffing needs assessment to determine the appropriate organizational structure; and (iv) improving information systems to support the implementation of a Chart of Accounts.
- (b) Strengthening the TCE's capacity in: (i) implementing international accounting and auditing standards; (ii) preparing guidance materials and providing training to selected TCE's staff; and (iii) coordinating input from and with legislatures and citizens.
- (c) (i) Designing and implementing management information systems to support execution of bidding processes; (ii) preparing a proposal for improving the Borrower's standard bidding documents; (iii) adopting a system of preventive internal controls, management information and



social outreach; and (iv) modernizing the Borrower's '*licitar*' information system.



SCHEDULE 2

Program Execution

Section I. Implementation Arrangements

A. **Program Fiduciary, Environmental and Social Systems**

Without limitation on the provisions of Article V of the General Conditions for the Program, the Borrower shall carry out the Program, or cause the Program to be carried out, in accordance with financial management, procurement and environmental and social management systems acceptable to the Bank ("Program Fiduciary, Environmental and Social Systems") which are designed to ensure that:

1. the **Program Loan** proceeds are used for the achievement of their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and
2. the actual and potential adverse environmental and social impacts of the Program are identified, avoided, minimized, or mitigated, as the case may be, all through an informed decision-making process.

B. **Anti-Corruption**

Without limitation on the provisions of Part A of this Section, the Borrower shall carry out the Program, or cause the Program to be carried out, in accordance with the provisions of the Anti-Corruption Guidelines for the Program.

C. **Other Program Institutional and Implementation Arrangements**

1. Program Institutions

- (a) Without limitation on the generality of Part A of this Section I, the Borrower shall, through SEPLAG, cause IPECE to coordinate, monitor and report on the execution of the Program, and to operate, at all times, aiming at the implementation of the Program, with powers, functions, capacity and resources satisfactory to the Bank to discharge such functions under the Program.
- (b) The Borrower shall cause, through and in accordance with Participating Agency Agreements, each Participating Agency to maintain adequate staff in sufficient numbers to carry out the activities under the Program that fall within their administrative jurisdiction, and to operate, at all times, aiming at the implementation of the Program, with powers,



functions, capacity and resources satisfactory to the Bank to discharge such functions under the Program.

2. Implementation Agreements

- (a) To facilitate the carrying out of the Program, the Borrower shall enter into a Participating Agency Agreement with each of the Participating Agencies, under terms and conditions approved by the Bank, including, *inter alia*, the obligation to: (i) carry out the activities which fall within its administrative jurisdiction under the Program; and (ii) comply with the pertinent provisions of this Schedule as applicable to said Participating Agency, including compliance with the provisions of the Anti-Corruption Guidelines for the Program.
- (b) The Borrower shall exercise its rights and carry out its obligations under each Participating Agency Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Program Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Participating Agency Agreement or any of its provisions.
- (c) Without limitation to the generality of Part A of this Section I, the Borrower shall, unless otherwise agreed by the Bank, carry out, and/or cause the Participating Agencies to carry out, the Program Action Plan in a manner satisfactory to the Bank.

3. Other Undertakings

The Borrower shall carry out, until the completion of the Program, Management Meetings to convene at least once every semester, to discuss progress under the Operation and provide guidance concerning the overall supervision of the Operation, and shall submit, promptly thereafter, the minutes of said meetings to the Bank.

Section II. Excluded Activities

The Borrower shall ensure that the Program excludes any activities which:

1. in the opinion of the Bank, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people; or
2. involve the procurement of: (a) works, estimated to cost \$50,000,000 equivalent or more per contract; (b) goods, estimated to cost \$30,000,000 equivalent or



more per contract; (c) non-consulting services, estimated to cost \$20,000,000 equivalent or more per contract; or (d) consultants' services, estimated to cost \$15,000,000 equivalent or more per contract.

Section III. Program Monitoring, Reporting and Evaluation; Audits

A. Program Reports

The Borrower shall monitor and evaluate the progress of the Program and prepare Program Reports in accordance with the provisions of Section 5.08 of the General Conditions for the Program. Each Program Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than 45 calendar days after the end of the period covered by such report.

B. Program Financial Audits

Without limitation on the generality of Section I.A of this Schedule 2 and Section 5.09 of the General Conditions for the Program, the Borrower shall have the Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions for the Program. 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 twelve months after the end of such period.

C. Technical Audits

The Borrower shall: (a) not later than six months after the Effective Date, hire independent auditors under terms of reference satisfactory to the Bank, to carry out the verification of compliance of the DLIs/DLRs which are set forth in the table in Section IV.A.2 of this Schedule; and (b) cause said independent auditors to, not later than thirty days after the verification of compliance of said DLIs/DLRs has been completed, prepare and furnish to the Borrower and the Bank, a report on the results of said verification of compliance process of such scope and in such detail as the Bank shall reasonably request.

Section IV. Withdrawal of Program Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Program Loan in accordance with the provisions of Article II of the General Conditions for the Program, this Section, and such additional instructions as the Bank may specify from time to time by notice to the Borrower to: (a) pay the Front-end Fee; and (b) finance the



Program Expenditures, on the basis of the results (“Disbursement Linked Results” or “DLRs”) achieved by the Borrower, as measured against specific indicators (“Disbursement Linked Indicators” or “DLIs”); all as set forth in the table in paragraph 2 of this Part A.

2. The following table specifies each category of withdrawal of the proceeds of the Program Loan (including the Disbursement Linked Indicators as applicable) (“Category for the Program”), the Disbursement Linked Results for each Category for the Program (as applicable), and the allocation of the amounts of the Program Loan to each Category for the Program:

Category for the Program (including Disbursement Linked Indicator as applicable)	DLR Baseline (as applicable)	Disbursement Linked Result (as applicable and expressed in USD)	Amount of the Loan Allocated (expressed in USD)
(1) DLI No. 1: Approval of skills development strategy, preparation of the action plan and implementation of selected actions under the action plan	Not applicable	(a) Draft strategy document prepared and at least four agreements signed with private sector, and four agreement signed with academic institutions, to assist the Borrower in finalizing and implementing the strategy	39,375,000
		(b) Committee established by decree	4,462,500
		(c) Strategy document finalized	6,198,000
		(d) Action plan published	2,744,448



Category for the Program (including Disbursement Linked Indicator as applicable)	DLR Baseline (as applicable)	Disbursement Linked Result (as applicable and expressed in USD)	Amount of the Loan Allocated (expressed in USD)
(1) DLI No. 1: Approval of skills development strategy, preparation of the action plan and implementation of selected actions under the action plan (continued)	Not applicable	(e) One action from the action plan implemented	3,444,000
		(f) A second action implemented from the action plan	3,444,000
		(g) A third action implemented from the action plan	3,120,000
(2) DLI No. 2: Establishment of monitoring system for TVET programs	Not applicable	(a) First monitoring report published	3,444,000
		(b) Second monitoring report published	3,444,000
(3) DLI No. 3: Total number of agreements in effect with private companies to contribute equipment, <i>in situ</i> training, and provide input to curriculum design or course instructors	Eight agreements in effect	(a) Total of ten in the first semester of CY15	2,744,444
		(b) Total of 12 in the second semester of CY15	3,403,750
		(c) Total of 13 in the first semester of CY16	3,444,000
		(d) Total of 15 in the second semester of CY16	3,438,000
		(e) Total of 16 in the first semester of CY17	3,444,000
		(f) Total of 18 in the second semester of CY17	3,120,000
(4) DLI No. 4: Percentage of families with children aged 0-5 located in Selected Municipalities and enrolled in <i>Cadastró Único</i> are receiving family support through CRAS	Zero	(a) 10% in the second semester of CY15	3,403,750
		(b) 15% in the second semester of CY16	3,438,000
		(c) 25% in the second semester of CY17	3,120,000



Category for the Program (including Disbursement Linked Indicator as applicable)	DLR Baseline (as applicable)	Disbursement Linked Result (as applicable and expressed in USD)	Amount of the Loan Allocated (expressed in USD)
(5) DLI No. 5: Percentage of technical teams in CRAS trained in family support	Zero	(a) 15% in the first semester of CY15	2,744,444
		(b) 30% in the second semester of CY15	3,403,750
		(c) 42.5% in the first semester of CY16	3,444,000
		(d) 55% in the second semester of CY16	3,438,000
		(e) 75% in the first semester of CY17	3,444,000
		(f) 95% in the second semester of CY17	3,120,000
(6) DLI No. 6: Percentage of FECOP-financed family assistance projects with log frames	Zero	(a) 22.5% in the first semester of CY15	2,744,444
		(b) 45% in the second semester of CY15	3,403,750
		(c) 55% in the first semester of CY16	3,444,000
		(d) 70% in the second semester of CY16	3,438,000
		(e) 82.5% in the first semester of CY17	3,444,000
		(f) 95% in the second semester of CY17	3,120,000



Category for the Program (including Disbursement Linked Indicator as applicable)	DLR Baseline (as applicable)	Disbursement Linked Result (as applicable and expressed in USD)	Amount of the Loan Allocated (expressed in USD)
(7) DLI No. 7: Establishment of an inter-agency Water Security Committee	Not applicable	(a) Committee established by decree (b) Diagnostic of the Watersheds completed (c) Minutes of at least two committee meetings held in the first semester of CY16, with each minutes valued at 1,435,000 (d) Minutes of at least two committee meetings in the second semester of CY16, with each minutes valued at 1,910,000 (e) Minutes of at least two committee meetings held in the first semester of CY17, with each minutes valued at 1,435,000 (f) Minutes of at least two committee meetings held in the second semester of CY17, with each minutes valued at 1,560,000	39,375,000 2,744,444 3,444,000 3,438,000 3,444,000 3,120,000
(8) DLI No. 8: Percentage of households with adequate connection to sewage system	83.3%	(a) 83.8% in the first semester of CY14 (b) 84.3% in the second semester of CY14	5,250,000 6,198,000



Category for the Program (including Disbursement Linked Indicator as applicable)	DLR Baseline (as applicable)	Disbursement Linked Result (as applicable and expressed in USD)	Amount of the Loan Allocated (expressed in USD)
(8) DLI No. 8: Percentage of households with adequate connection to sewage system (continued)	83.3%	(c) 84.6% in the first semester of CY15 (d) 84.9% in the second semester of CY15 (e) 85.2% in the first semester of CY16 (f) 85.5% in the second semester of CY16 (g) 85.7% in the first semester of CY17 (h) 85.9% in the second semester of CY17	2,744,444 3,403,750 3,444,000 3,438,000 3,444,000 3,120,000
(9) DLI No. 9: Index of Environmental Enforcement Quality	17%	(a) 28% in the first semester of CY14 (b) 40% in the second semester of CY14 (c) 50% in the first semester of CY15 (d) 60% in the second semester of CY15 (e) 65% in the first semester of CY16 (f) 70% in the second semester of CY16 (g) 75% in the first semester of CY17 (h) 80% in the second semester of CY17	5,250,000 6,198,000 2,744,444 3,403,750 3,444,000 3,438,000 3,444,000 3,120,000



Category for the Program (including Disbursement Linked Indicator as applicable)	DLR Baseline (as applicable)	Disbursement Linked Result (as applicable and expressed in USD)	Amount of the Loan Allocated (expressed in USD)
(10) DLI No. 10: Implementation of participatory water quality monitoring	Not applicable Zero for the number of reservoirs	(a) Monitoring methodology defined and adopted (b) Data collection protocol defined and adopted (c) Methodology implemented in one reservoir in the Borrower's territory in the second semester of CY16 (d) Methodology implemented in two additional reservoirs in the Borrower's territory in the second semester of CY17	2,744,444 3,403,750 3,438,000 3,120,000
(11) DLI No. 11: Number of the Borrower's secretariats under the Program using the model for aligning incentives with its respective strategic objectives	Not applicable Zero for the number of secretariats	(a) Approval of model for aligning incentives (b) One in the first semester of CY15 (c) Two in the second semester of CY15 (d) Three in the first semester of CY16 (e) Four in the second semester of CY16 (f) Five in the first semester of CY17	6,198,000 2,744,444 3,403,750 3,444,000 3,438,000 3,444,000



Category for the Program (including Disbursement Linked Indicator as applicable)	DLR Baseline (as applicable)	Disbursement Linked Result (as applicable and expressed in USD)	Amount of the Loan Allocated (expressed in USD)
(11) DLI No. 11: Number of the Borrower's secretariats under the Program using the model for aligning incentives with its respective strategic objectives (continued)	Zero for the number of secretariats	(g) Six in the second semester of CY17	3,120,000
(12) DLI No. 12: Total percentage of public investments under the Program prepared using approved methodology	Not applicable for approval of methodology; Zero for percentage of investments	(a) Approval of methodology (b) 5% of investments in first semester of CY16 (c) 10% of investments in second semester of CY16 (d) 25% of investments in first semester of CY17 (e) 40% of investments in second semester of CY17	6,198,000 3,444,000 3,438,000 3,444,000 3,120,000
(13) Front-end Fee to be paid pursuant to Section 2.03 (a) of this Agreement in accordance with Section 2.07(b) of the General Conditions	Not applicable	Not applicable	787,500
TOTAL AMOUNT			315,000,000



B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for purposes of Section 2.05 of the General Conditions for the Program, for payments for Program Expenditures made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$78,750,000 equivalent may be made for results achieved prior to this date but on or after December 20, 2012; and
 - (b) for any DLR referred to in the table in Part A.2 of this Section (except under the Prior Results), until and unless the Borrower has furnished evidence satisfactory to the Bank that said DLR has been achieved on terms and in a manner acceptable to the Bank.

2. Notwithstanding the provisions of Part B.1(b) of this Section:
 - (a) the Borrower may withdraw an amount not to exceed the equivalent of \$15,750,000 as an advance; provided, however, that if any DLR set forth in the table in Part A.2 of this Section, in the opinion of the Bank, is not achieved or is only partially achieved by the Closing Date, the Borrower shall promptly refund to the Bank such advance, or any portion of such advance as determined by the Bank, upon notice thereof from the Bank. Except as otherwise agreed with the Borrower, the Bank shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category for the Program shall be permitted only on such terms and conditions as the Bank shall specify by notice to the Borrower;
 - (b) if the Bank is satisfied that a DLR has been exceeded by the date by which said DLR is set to be achieved, in a manner that it fully or partially achieves a subsequent and respective DLR, the Bank may decide, at its sole discretion and at any time, by notice to the Borrower, to authorize the withdrawal of such amount of the unwithdrawn proceeds of the **Program Loan** then allocated to said subsequent and respective DLR which, in the opinion of the Bank, corresponds to the extent of achievement of said DLR; and
 - (c) if the Bank is not satisfied that any of the DLRs (except the DLRs under Categories for the Program (1)(b) through (g), (2), (7)(b), (10)(a) and (b), (11)(a), and (12)(a)) has been achieved by the date by which the said DLR is set to be achieved, the Bank may, at any time, by notice to the Borrower, decide, in its sole discretion, to:

- (i) authorize, except for the DLR under Categories for the Program (7)(c) through (f):
 - (A) the withdrawal of such lesser amount of the unwithdrawn proceeds of the **Program Loan** then allocated to said DLR under the respective Category for the Program which, in the opinion of the Bank, corresponds to the extent of achievement of said DLR, said lesser amount to be calculated in accordance with the Formula;
 - (B) subsequent disbursements against the respective DLR (except the DLRs under Categories for the Program (3) and (11)) to be calculated in accordance with the Formula for Subsequent DLR;
 - (C) disbursement of previously undisbursed amounts allocated to the respective DLR (except the DLRs under Categories for the Program (3) and (11)), if and when the Bank shall be satisfied, on the basis of evidence acceptable to the Bank, that a partially achieved DLR for which a lesser amount has been disbursed pursuant to subparagraph (A) above has been fully achieved;
 - (ii) reallocate all or a portion of the proceeds of the Program Loan then allocated to said DLR to any other DLR; and/or
 - (iii) cancel all or a portion of the proceeds of the Program Loan then allocated to said DLR.
3. The Closing Date is January 31, 2018. 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.
4. Notwithstanding the foregoing provisions of this Section IV, if at any time after the Closing Date the Borrower has failed to provide evidence satisfactory to the Bank that the **Withdrawn Program Loan Balance** does not exceed the total amount of Program Expenditures paid by the Borrower, exclusive of any such expenditures financed by any other financier or by the Bank or the Association under any other loan, credit or grant, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such excess amount of the Withdrawn Program Loan Balance. The Bank shall cancel the refunded amount of the Withdrawn Loan Balance.

SCHEDULE 3

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall, through SEPLAG, cause IPECE to: (a) coordinate and monitor the carrying out of the Project; (b) be responsible for the carrying out of financial management and procurement under the Project (including the use of SEPA); and (c) monitor and operate, at all times during Project implementation, with staff, powers, functions, capacity and resources satisfactory to the Bank to discharge such functions under the Project, all in accordance with the Procurement Operational Instructions for the Project, the Procurement Plan and this Schedule.
2. The Borrower shall carry out, until the completion of the Project, Management Meetings to convene at least once every semester, to discuss progress under the Project and provide guidance concerning the overall supervision of the Project, and shall submit, promptly thereafter, the minutes of said meetings to the Bank.

B. Anti-Corruption

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

C. Safeguards.

The Borrower shall adopt terms of reference for non-consulting services and for consultants' services under such activities of the Project in accordance with the requirements of the Bank Safeguards Policies then in force and as applicable, all in a manner satisfactory to the Bank.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

The Borrower shall, through SEPLAG, cause IPECE to 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 for the Project on the basis of indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

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 for the Project.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall, through SEPLAG, cause IPECE to, in collaboration with SEPLAG, prepare and furnish to the Bank not later than sixty calendar 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, through SEPLAG, cause IPECE to, in collaboration with SEPLAG, have the Financial Statements for the Project audited in accordance with the provisions of Section 5.09 (b) of the General Conditions for the Project. 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 twelve months after the end of such period.

Section III. Procurement

A. General

1. **Non-consulting Services.** All non-consulting 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 Project 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.



2. **Other Methods of Procurement of Non –consulting services:** The following table specifies the methods of procurement other than International Competitive Bidding, which may be used for non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) National Competitive Bidding, <i>convite, tomada de preços</i> and <i>concorrência</i> , and the method known as <i>pregão eletrônico</i> , subject to the following, namely, that the <i>pregão eletrônico</i> system and the bidding documents shall be acceptable to the Bank
(b) Shopping
(c) Direct contracting.

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 methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan:

Procurement Methods
(a) Quality-based Selection
(b) Selection based on Consultants' Qualifications
(c) Selection under a Fixed Budget
(d) Least Cost Selection
(e) Single-source Selection of consulting firms
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.



Section IV. Withdrawal of Project Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Project Loan in accordance with the provisions of Article II of the General Conditions for the Project, 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 the Project Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Project Eligible Expenditures that may be financed out of the proceeds of the Project Loan ("Category for the Project"), the allocation of the amounts of the Project Loan to each Category for the Project, and the percentage of expenditures to be financed for Project Eligible Expenditures in each Category for the Project.

Category for the Project	Amount of the Project Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Non-consulting services and consultants' services	34,912,500	100%
(2) Front-end Fee	87,500	Amount payable pursuant to Section 2.03(b) of this Agreement in accordance with Section 2.07 (b) of the General Conditions for the Project
TOTAL AMOUNT	35,000,000	

B. Withdrawal Conditions; Withdrawal Period

The Closing Date is January 31, 2018. 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 4

Amortization Schedule

1. Subject to the provisions of paragraph 2 of this Schedule, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each February 15 and August 15, the first installment to be payable on the eleventh (11th) Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount and the last installment to be payable on the fiftieth- (50th) Payment Date following the Maturity Fixing Date for the Disbursed Amount. Each installment except for the last one shall be equal to one-fortieth (1/40) of the Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of the Disbursed Amount.
2. If any one or more installments of principal of the Disbursed Amount would, pursuant to the provisions of paragraph 1 of this Schedule, be payable after February 15, 2043, the Borrower shall also pay on such date the aggregate amount of all such installments.
3. The Bank shall notify the Loan Parties of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for the Disbursed Amount.
4. Notwithstanding the provisions of paragraphs 1 through 3 of this Schedule, in the event of a Currency Conversion of all or any portion of a Disbursed Amount 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.



APPENDIX

Section I. Definitions

1. "ADECE" means *Agência de Desenvolvimento do Estado do Ceará*, the Borrower's Development Agency created pursuant to the Borrower's law No. 13.960, dated September 4, 2007, as amended to the date of this Agreement.
2. "ADECE Participating Agency Agreement" means the agreement to be entered into between the Borrower, through CEDE, and ADECE pursuant to Section I.C.2(a) of Schedule 2 to this Agreement.
3. "Anti-Corruption Guidelines for the Program" means the Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing," dated February 1, 2012.
4. "Anti-Corruption Guidelines for the Project" means the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.
5. "Bank Safeguards Policies" means the Bank's operational policies and procedures, set forth in the Bank's operational manual and identified as OP/BP 4.01, 4.04, 4.09, 4.10,4.11, 4.12, 4.36, 4.37, 7.50 and 7.60, as said manual is published under www.WorldBank.org/opmanual.
6. "*Cadastro Único*" means the Guarantor's cadastre, established and operated under the Guarantor's Presidential Decree No. 6.135 of June 26, 2007, as a single beneficiary database to service all cash transfer programs.
7. "CAGECE" means *Companhia de Água e Esgoto do Estado do Ceará*, the Borrower's Company of Water and Sewers, created pursuant to the Borrower's law No. 9.499, dated July 20, 1971, as amended to the date of this Agreement.
8. "CAGECE Participating Agency Agreement" means the agreement to be entered into between the Borrower, through SCIDADES, and CAGECE pursuant to Section I.C.2(a) of Schedule 2 to this Agreement.
9. "Category for the Program" means a category for the Program set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.
10. "Category for the Project" means a category set forth in the table in Section IV.A.2 of Schedule 3 to this Agreement.

11. "CEDE" means *Conselho Estadual de Desenvolvimento Econômico*, the Borrower's Council for Economic Development.
12. "CGE" means *Controladoria e Ouvidoria Geral do Estado*, the Borrower's office of the Comptroller General.
13. "Chart of Accounts" means the Guarantor's national public accounting system pursuant to the Guarantor's portaria STN No. 437, dated July 12, 2012, as amended to the date of this Agreement.
14. "COGERH" means *Companhia de Gestão dos Recursos Hídricos*, the Borrower's Company for the Management of Hydric Resources, created pursuant to the Borrower's law No.12.217, dated November 18, 1993, as amended to the date of this Agreement.
15. "COGERH Participating Agency Agreement" means the agreement to be entered into between the Borrower, through SRH, and COGERH pursuant to Section I.C.2(a) of Schedule 2 to this Agreement.
16. "CONPAM" means *Conselho de Políticas e Gestão do Meio Ambiente*, the Borrower's Committee for Environmental Management Policies, created pursuant to the Borrower's law No. 13.875, dated February 7, 2007, as amended to the date of this Agreement.
17. "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011.
18. "CRAS" means the *Centro de Referência de Assistência Social*, the Guarantor's decentralized Social Assistance Reference Centers, created pursuant to the Guarantor's law No. 8742, dated December 7, 1993, as amended to the date of this Agreement.
19. "Creches" means child care center facilities.
20. "CY" means calendar year.
21. "Disbursement Linked Indicator" or "DLI" means in respect of a given Category for the Program, the indicator related to said Category as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.
22. "Disbursement Linked Result" or "DLR" means in respect of a given Category for the Program, the result under said Category as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement, on the basis of the achievement of which, the amount of the Program Loan allocated to said result may be



withdrawn in accordance with the provisions of Section IV of Schedule 2 to this Agreement.

23. “DLR Baseline” means the baseline result measured against a DLI for the respective DLR as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.

24. “ECD” means early childhood development.

25. “FECOP” means *Fundo Estadual de Combate à Pobreza*, the Borrower’s Anti-Poverty Fund, created pursuant to the Borrower’s complementary law No. 37, dated November 26, 2003, as amended to the date of this Agreement, which finances anti-poverty programs in eleven departments, under SEPLAG’s coordination.

26. “Formula” means the measure for calculating disbursements against DLRs given by the following formula:

$$\frac{X_n - B}{T_n - B} \cdot V$$

where:

- (a) “X_n” is the result achieved in the current period;
- (b) “B” is the DLR Baseline;
- (c) “T_n” is the DLR for the current period; and
- (d) “V” is the value attributed to the DLR.

27. “Formula for Subsequent DLR” means the additional measure for calculating disbursements against DLRs pursuant to Section IV.B.2(c)(i)(B) of Schedule 2 to this Agreement, given by the following formula:

$$\frac{X_n - T_{n-1}}{T_n - T_{n-1}} \cdot V$$

where:

- (a) “X_n” is the result achieved in the current period;
- (b) “T_{n-1}” is the DLR for the prior period;
- (c) “T_n” is the DLR for the current period; and
- (d) “V” is the value attributed to the DLR.

28. “General Conditions” means the General Conditions for the Program or the General Conditions for the Project (as defined herein), as applicable.

29. “General Conditions for the Program” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012, with the modifications for the Program set forth in Section II of this Appendix.



30. "General Conditions for the Project" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012, with the modifications for the Project set forth in Section III of this Appendix.
31. "Index of Environmental Enforcement Quality" means a composite index issued by CONPAM, as revised from time to time, measured as a percentage of each: (a) environmental infractions that have been corrected; (b) total reservoir area monitored through telemetry; and (c) population participating in municipal environmental education programs.
32. "*Instituto Brasileiro de Geografia e Estatística*" means the Guarantor's institute for geography and statistics, established pursuant to the Guarantor's *Decreto-Lei* No. 161, dated February 13, 1967, as amended to the date of this Agreement.
33. "IPECE" means *Instituto de Pesquisa e Estratégia Econômica do Ceará*, the Borrower's Institute of Economic Research and Strategy created pursuant to the Borrower's law No. 13.301, dated April 14, 2003, as amended to the date of this Agreement.
34. "Management Meetings" means the meetings held by the Borrower's committee assigned to oversee the implementation of the Operation, including representatives from SEPLAG, SEFAZ, IPECE, and the Participating Agencies.
35. "Operation" means the Program and the Project (as defined herein) jointly conceived as interrelated to each other.
36. "PADIN" means *Programa de Acompanhamento do Desenvolvimento Infantil*, the Borrower's program on childhood development, created pursuant to the resolution No. 361, dated June 21, 2000, issued by the Borrower's *Conselho de Educação do Ceará*, as amended to the date of this Agreement.
37. "PAIF" means *Programa de Atendimento Integral às Famílias*, the Borrower's Family Welfare Program, created pursuant to CRAS.
38. "Participating Agency" means ADECE, CAGECE, or COGERH, and/or any other independent legal entity, satisfactory to the Bank, that may be assigned administrative jurisdiction to carry out activities under the Operation, and the plural thereof means all of such agencies collectively.
39. "Participating Agency Agreement" means the ADECE Participating Agency Agreement, the CAGECE Participating Agency Agreement, the COGERH Participating Agency Agreement, and/or any other agreement, satisfactory to the Bank, that may be entered into between the Borrower and a Participating Agency for purposes of facilitating the carrying out of the Program.



40. "PPA" means *Plano Puriannual*, the Borrower's Multi Year Plan approved pursuant to the Borrower's law No. 15.109, dated January 2, 2012, as published and available to the public on the website www.seplag.ce.gov.br, which contains the Borrower's public policy objectives and budgetary guidelines for the period ranging from the year 2012 to the year 2015.
41. "Prior Results" mean the results achieved under Categories for the Program (1)(a) and (7)(a), namely, and respectively: (a) the draft strategy document and agreements referred to in Category for the Program (1)(a); and (b) the establishment of the Water Security Committee as evidenced by the Borrower's decree No. 31.165, dated March 13, 2013, all received and found acceptable by the Bank.
42. "Procurement Guidelines" means the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011.
43. "Procurement Operational Instructions for the Project" means the instructions on procurement for the Project found satisfactory to the Bank, adopted on October 25, 2013, by the Borrower, through SEPLAG, for the carrying out the Project, including: (a) IPECE's obligations in carrying out procurement under the Project; and (b) a description of the procedures for the carrying out of such obligations by IPECE.
44. "Procurement Plan" means the Borrower's procurement plan for the Project, dated October 25, 2013, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
45. "Program" means the activities described in Part I of Schedule 1 to this Agreement.
46. "Program Action Plan" means the Borrower's plan for the Program referred to in Section I.C.2(c) of Schedule 2 to this Agreement and on Annex 8 to the Bank's Program Appraisal Document dated October 7, 2013, as said plan may be amended from time to time with the agreement of the Bank.
47. "Program Appraisal Document" is the Bank's document dated October 7, 2013.
48. "Program Fiduciary, Environmental and Social Systems" means the Borrower's systems for the Program referred to in Section I.A of Schedule 2 to this Agreement.



49. "Project" means the activities described in Part II of Schedule I to this Agreement.
50. "SCIDADES" means *Secretaria das Cidades do Estado do Ceará*, the Borrower's Cities Secretariat.
51. "SEDUC" means *Secretaria da Educação do Estado do Ceará*, the Borrower's Education Secretariat.
52. "SEFAZ" means *Secretaria da Fazenda do Estado do Ceará*, the Borrower's Finance Secretariat.
53. "Selected Municipality" means any of the 36 municipalities in the Borrower's territory with the highest percentage of families in poverty, according to the 2010 census carried out by the Guarantor's *Instituto Brasileiro de Geografia e Estatística*.
54. "SEPA" means the Bank's procurement plans execution system.
55. "SEPLAG" means *Secretaria do Planejamento e Gestão do Estado do Ceará*, the Borrower's Secretariat of Planning and Management.
56. "SRH" means *Secretaria dos Recursos Hídricos do Estado do Ceará*, the Borrower's Secretariat of Hydric Resources.
57. "STDS" means *Secretaria do Trabalho e Desenvolvimento Social do Estado do Ceará*, the Borrower's Labor and Social Development Secretariat.
58. "TCE" means *Tribunal de Contas do Estado do Ceará*, the Borrower's Court of Auditors created pursuant to the Borrower's law No. 12.509, dated December 6, 1995, as amended to the date of this Agreement.
59. "TVET" means the Borrower's program titled *Educação e Formação Técnico-profissional*, the Borrower's Technical and Vocational Education Training program, created pursuant to the Borrower's Law No. 14.273, dated December 19, 2008, as amended to the date of this Agreement.
60. "Water Security Committee" means the Borrower's committee on water security, established pursuant to the Borrower's Decree No. 31.165, dated March 13, 2013.
61. "Watersheds" means the Metropolitan, *Acarauá* and *Salgado* strategic watersheds in the Borrower's territory.



Section II. Modifications to the General Conditions for the Program

The modifications to the General Conditions for the Program are as follows:

1. Wherever used throughout the General Conditions for the Program, the term "Loan" is modified to read "Program Loan", the term "Loan Account" is modified to read "the Program Loan Account", the term "Loan Currency" is modified to read "Program Loan Currency", the term "Loan Payment" is modified to read "Program Loan Payment", the term "the Project" is modified to read "the Program", the term "the Project Agreement" is modified to read "the Program Agreement", the term "Project Implementing Entity" is modified to read "Program Implementing Entity", the term "Project Report" is modified to read "Program Report", the term "Eligible Expenditures" is modified to read "Program Expenditures", the term "Unwithdrawn Loan Balance" is modified to read "Unwithdrawn Program Loan Balance"; and the term "Withdrawn Loan Balance" is modified to read "Withdrawn Program Loan Balance".
2. The terms "Program Loan Account", "Withdrawn Program Loan Balance", "Program Loan Payments" have the meanings ascribed to them in the General Conditions for the Program. The terms "Withdrawn Project Loan Balance", "Project Loan Payments", "Project Loan Account" have the meanings ascribed in the General Conditions for the Project.
3. In the Table of Contents, the references to Sections, Section names and Section numbers are modified to reflect the amendments set out below.
4. Section 2.02, *Special Commitment by the Bank*, is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.
5. In Section 2.02 (originally numbered as Section 2.03), the heading "*Applications for Withdrawal or for Special Commitment*" is replaced with "*Applications for Withdrawal*", and the phrase "or to request the Bank to enter into a Special Commitment" is deleted.
6. The section originally numbered as Section 2.04, *Designated Accounts* is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.
7. Paragraph (a) of Section 2.03 (originally numbered as Section 2.05), *Eligible Expenditures* (renamed "Program Expenditures" in accordance with paragraph 1 of this Section II), is modified to read: "(a) the payment is for the financing of the reasonable cost of expenditures required for the Program and to be financed out of the proceeds of the Program Loan in accordance with the provisions of the Legal Agreements".



8. The last sentence of Section 2.04 (originally numbered as Section 2.06), *Financing Taxes*, is modified to read: "To that end, if the Bank at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the Bank may, by notice to the Borrower, exclude such amount or such Tax from the Program Expenditures to be financed out of the proceeds of the Loan, as required to ensure consistency with such policy of the Bank."
9. Section 2.06 (originally numbered as Section 2.08), *Reallocation*, is modified to read: "Notwithstanding any allocation of an amount of the Program Loan to a withdrawal category under the Loan Agreement, the Bank may, by notice to the Borrower, reallocate any other amount of the Program Loan to such category if the Bank reasonably determines at any time that such reallocation is appropriate for the purposes of the Program."
10. Section 7.01, *Cancellation by the Borrower*, is modified to read: "The Borrower may, by notice to the Bank, cancel any amount of the Unwithdrawn Program Loan Balance."
11. Section 7.02. Suspension by the Bank. The first paragraph is modified to read: "If any of the events specified in paragraphs (a) through (m) of this Section occurs and is continuing, the Bank may, by notice to the Loan Parties, suspend in whole or in part the right of the Borrower to make withdrawals from the **Program Loan Account** and/or the **Project Loan Account**. Such suspension shall continue until the event (or events) which gave rise to the suspension has (or have) ceased to exist, unless the Bank has notified the Loan Parties that such right to make withdrawals has been restored."
12. Paragraph (d) of Section 7.03, *Cancellation by the Bank*, entitled "*Misprocurement*", is deleted, and subsequent paragraphs are relettered accordingly.
13. Section 7.04, *Amounts Subject to Special Commitment not Affected by Cancellation or Suspension by the Bank*, is deleted in its entirety, and subsequent Sections in Article VII and references to such Sections are renumbered accordingly.
14. Section 7.06. Events of Acceleration. The first paragraph is modified to read: "If any of the events specified in paragraphs (a) through (f) of this Section occurs and continues for the period specified (if any), then at any subsequent time during the continuance of the event, the Bank may, by notice to the Loan Parties, declare all or part of the **Withdrawn Program Loan Balance** and **Withdrawn Project Loan Balance** as at the date of such notice to be due and payable immediately together with any other **Program Loan Payments** and **Project Loan Payments** due under the Loan Agreement or these General Conditions."

Upon any such declaration, such **Withdrawn Program Loan Balance, Withdrawn Project Loan Balance, Program Loan Payments and Project Loan Payments** shall become immediately due and payable.”

15. Section 9.05. Termination of Legal Agreements on Full Payment, is modified to read: “The Legal Agreements and all obligations of the parties under the Legal Agreements shall forthwith terminate upon full payment of the **Withdrawn Program Loan Balance, Withdrawn Project Loan Balance, and all other Program Loan Payments and Project Loan Payments** due.”
16. In the Appendix, *Definitions*, all references to Section numbers are modified, as necessary, to reflect the modifications set forth above. In addition, the definition of the term “Special Commitment” is deleted in its entirety, and all subsequent paragraphs are renumbered accordingly.

Section III. Modifications to the General Conditions for the Project

The modifications to the General Conditions for the Project are as follows:

1. Wherever used throughout the General Conditions for the Project, the term “Eligible Expenditure” is modified to read “Project Eligible Expenditure”, the term “Loan” is modified to read “Project Loan”, the term “Loan Account” is modified to read “the Project Loan Account”, the term “Loan Currency” is modified to read “Project Loan Currency”, the term “Loan Payment” is modified to read “Project Loan Payment”, the term “Unwithdrawn Loan Balance” is modified to read “Unwithdrawn Project Loan Balance”; and the term “Withdrawn Loan Balance” is modified to read “Withdrawn Project Loan Balance”.
2. The terms “Project Eligible Expenditure”, “Project Loan Account”, “Withdrawn Project Loan Balance”, “Project Loan Payments” have the meanings ascribed to them in the General Conditions for the Project. The terms “Withdrawn Program Loan Balance”, “Program Loan Payments”, “Program Loan Account” have the meanings ascribed in the General Conditions for the Program.
3. Section 7.02. Suspension by the Bank. The first paragraph is modified to read: “If any of the events specified in paragraphs (a) through (m) of this Section occurs and is continuing, the Bank may, by notice to the Loan Parties, suspend in whole or in part the right of the Borrower to make withdrawals from the **Project Loan Account** and/or **the Program Loan Account**. Such suspension shall continue until the event (or events) which gave rise to the suspension has (or have) ceased to exist, unless the Bank has notified the Loan Parties that such right to make withdrawals has been restored.”



4. Section 7.06. Events of Acceleration. The first paragraph is modified to read: "If any of the events specified in paragraphs (a) through (f) of this Section occurs and continues for the period specified (if any), then at any subsequent time during the continuance of the event, the Bank may, by notice to the Loan Parties, declare all or part of the **Withdrawn Project Loan Balance** and **Withdrawn Program Loan Balance** as at the date of such notice to be due and payable immediately together with any other **Project Loan Payments** and **Program Loan Payments** due under the Loan Agreement or these General Conditions. Upon any such declaration, such **Withdrawn Project Loan Balance, Withdrawn Program Loan Balance, Project Loan Payments** and **Program Loan Payments** shall become immediately due and payable."

5. Section 9.05. Termination of Legal Agreements on Full Payment, is modified to read: "The Legal Agreements and all obligations of the parties under the Legal Agreements shall forthwith terminate upon full payment of the **Withdrawn Project Loan Balance, Withdrawn Program Loan Balance**, and all other **Project Loan Payments and Program Loan Payments** due."



