LOAN NUMBER 8135-BR

Loan Agreement

(Pernambuco Rural Economic Inclusion Project –
 Projeto Pernambuco Rural Sustentável)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF PERNAMBUCO
LOAN AGREEMENT

Agreement dated as of the Signature Date (as defined in the Appendix to the Loan Agreement), between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"), and the STATE OF PERNAMBUCO ("Borrower"). The Bank and the Borrower hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

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

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred million Dollars ($100,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. The Borrower's Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Borrower's Secretary for Agriculture and Agrarian Reform.

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

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.
2.05. The Payment Dates are May 15 and November 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 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 Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project, through SARA, in accordance with the provisions of Article V of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall
ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**ARTICLE IV — EFFECTIVENESS; TERMINATION**

4.01. The Additional Condition of Effectiveness consists of the following, namely that the Operational Manual has been adopted through a regulation (Portaria) to be issued by the Borrower in form and substance satisfactory to the Bank.

4.02. The Additional Legal Matter consists of the following, namely that the Loan has been duly registered with the Central Bank of Brazil.

4.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the Signature Date, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on September 6, 2013.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

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

5.02. The Borrower's Address is:
Palácio do Campo das Princesas
Praça da República, s/n
50010-928 – Recife
Pernambuco
Brazil

Facsimile: 55-81-31812322

With copy to:

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

Facsimile: 55-61-2020-5006
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: INTBAFRAD Washington, D.C.
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391

AGREED at Brasília, Brazil on behalf of the Bank on June 15, 201
and at Rio de Janeiro on behalf of the Borrower on June 18, 201

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative

STATE OF PERNAMBUCO

By

 Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to promote rural business initiatives and expansion of rural access to water and other complementary infrastructure, by supporting the Borrower’s Results Management Framework.

The Project consists of the following parts:

Part 1: Investments in Rural Economic Inclusion

Promote investments in rural economic inclusion in the Borrower’s territory, through the provision of support to:

(a) *ProRural* for Business Plan preparation activities, to *inter alia*, (i) elaborate and implement a communication strategy to strengthen LPAs; (ii) identify and develop viable Business Plans with defined territorial strategies; (iii) train and certify local service providers on how to prepare business profiles and Business Plans, as well as on how to improve management and develop innovative financing mechanisms for the rural economy; and (iv) carry out technical studies in the areas of competitiveness, including market studies and analysis of new potential value chains.

(b) RPOs for the carrying out of productive investments, through Matching Grants, for the implementation of Productive Subprojects.

Part 2: Complementary Rural Infrastructure

Promote investments in complementary rural infrastructure in the Borrower’s territory, through the provision of, *inter alia*:

(a) support to RPOs for the carrying out of complementary rural investments, through Matching Grants, for the implementation of Infrastructure Subprojects; and

(b) training and the development of capacity-building initiatives to strengthen the day-to-day management of Infrastructure Subprojects, including small-scale rural water supply and sanitation systems.

Provision of support for, inter alia: (i) the technical and administrative management of the Project; (ii) the development, implementation and supervision of the ESMF, the IPPF, the RPF, and the communication strategy referred to in Part 1(a)(i) of the Project; (iii) the necessary updates to ProRural’s management information system; and (iv) the design, development and implementation of an impact evaluation module to track progress on results indicators.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional and Other Arrangements

1. No later than 45 days after the Effective Date, the Borrower shall establish, and thereafter maintain during the implementation of the Project, a Steering Committee chaired by SARA, and composed by representatives from key secretaries and organizations, as defined in the Operational Manual, responsible for providing general oversight and guidance on the strategic and multisectoral aspects of the Project.

2. The Borrower shall maintain within SARA during the implementation of the Project a unit (ProRural), consisting of staff having experience and qualifications satisfactory at all times to the Bank, and responsible for overall coordination and implementation of the Project, including fiduciary responsibilities.

3. The Borrower shall: (a) prepare and furnish to the Bank annual operating plans, satisfactory to the Bank, detailing the Project activities to be carried out during the next succeeding year, together with the respective sources of funding, by October 30 of each year during Project implementation; (b) furnish to the Bank the approved annual operating plans (including the respective sources of funding) referred to in paragraph (a) of this Section for each year in question, not later than 30 days after the approval of the Borrower's annual budget by its Legislative Assembly (Assembleia Legislativa); and (c) thereafter, implement each of said plans in a manner acceptable to the Bank.

4. The Borrower shall, and shall cause the respective RPO through the pertinent Subproject Agreement to, carry out the project in accordance with a manual (the Operational Manual), satisfactory to the Bank, which shall include the rules, methods, guidelines, standard documents and procedures for the carrying out of the relevant parts of the Project, including the following: (i) the detailed description of Project implementation activities and the detailed institutional arrangements of the Project; (ii) criteria and methods for the selection of RPOs; (iii) social, economic, financial, technical and environmental criteria for screening and selecting Subprojects, including a negative list of environmentally sensitive investments ineligible for financing under a Subproject; (iv) guidelines for the adoption of an integrated pest management approach in all applicable activities to be developed under the Project; (v) guidelines to follow in case of unexpected findings of objects with possible cultural or archaeological value; (vi) a model form of a Subproject Agreement; (vii) the Project administrative, accounting, auditing, reporting, financial (including cash flow aspects in relation
thereto), procurement and disbursement procedures (including customized statements of expenditures and all pertinent standard documents and model contracts in relation thereto); (viii) the monitoring indicators for the Project; and (ix) the ESMF, IPPF and the RPF. In the event that any provision of the Operational Manual shall conflict with this Agreement, the terms of this Agreement shall prevail.

B. Anti-Corruption

The Borrower shall, and shall cause RPOs through the pertinent Subproject Agreement to, ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Subprojects

For the purposes of carrying out Part 1(b) and 2 (a) of the Project, the Borrower shall:

(i) after having selected a Subproject in accordance with the guidelines and procedures set forth in the Operational Manual, enter into an agreement with the eligible RPO (“Subproject Agreement”), under terms and conditions approved by the Bank and included in the Operational Manual, for the provision of Matching Grants for the implementation of said Subproject.

(ii) ensure that each Subproject Agreement is prepared based on the model form approved by the Bank and included in the Operational Manual, in which the Borrower shall obtain rights adequate to protect its interests and those of the Bank, including the right to: (1) suspend or terminate the right of RPO to use the proceeds of the Matching Grant, or obtain a refund of all or any part of the amount of the Matching Grant then withdrawn, upon RPO's failure to perform any of its obligations under the Subproject Agreement; and (2) require each RPO to: (a) carry out its pertinent Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Borrower, the ESMF, the RPF, and the IPPF; (b) provide, promptly as needed, the resources required for the carrying out of the Subproject; (c) procure the goods, works, Non-consulting Services and Consultants’ Services to be financed out of the Matching Grant in accordance with the provisions of this Agreement; (d) maintain procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the pertinent Subproject and the achievement of its
objectives; (e) (i) maintain a simplified financial management system and records in accordance with consistently applied accounting standards acceptable to the Bank for community driven initiatives, both in a manner adequate to reflect the operations, resources and expenditures related to the Subproject; and (ii) at the Bank's or the Borrower's request, have the resulting financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank; (f) enable ProRural and the Bank to inspect the Subproject, its operation and any relevant records and documents; and (g) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.

(iii) exercise its rights and carry out its obligations under the Subproject Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive, terminate or fail to enforce any Subproject Agreement or any provisions thereof.

(iv) furnish to the Bank for its prior review the first three Productive and Infrastructure Subproject Agreements.

D. Safeguards

1. Environmental and Social Management Framework (ESMF)

The Borrower shall, through SARA: (a) implement the Project in accordance with the ESMF (including provisions for natural habitats, forests and pest management); and (b) adopt the procedures detailed in said ESMF for environmental screening, evaluation, implementation and monitoring of Subprojects.

2. Indigenous Peoples Planning Framework (IPPF)

The Borrower shall, through SARA: (a) implement the Project in accordance with the IPPF; (b) adopt the procedures detailed in said IPPF for screening, evaluation, implementation and monitoring of Subprojects; and (c) implement and/or cause to be implemented, the pertinent Indigenous Peoples development plans.

3. Resettlement Policy Framework (RPF)

The Borrower shall, through SARA: (a) implement the Project in accordance
with the RPF; (b) adopt the procedures detailed in said RPF for screening, evaluation, implementation and monitoring of Subprojects; and (c) implement and/or cause to be implemented, the pertinent resettlement development plans.

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

A. **Project Reports**

The Borrower, through SARA, 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 acceptable to the Bank and 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 two months after the end of the period covered by such report.

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

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

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than 45 days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.

3. The Borrower shall have the Financial Statements of the Project 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-consulting Services.** All goods, works and 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 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 Goods, Works and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting 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-consulting Services. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used:

| (a) National Competitive Bidding (including the method known as “pregão eletrônico”, as provided in the Guarantor’s Law No. 10520, of July 17, 2002 under any e-procurement system acceptable to the Bank), subject to the following additional procedure, namely, that the bidding documents shall be acceptable to the Bank. |
| (b) Shopping (including the method known as “pregão eletrônico”, as provided in the Guarantor’s Law No. 10520, of July 17, 2002, under any e-procurement system acceptable to the Bank). |
| (c) Commercial Practices, pursuant to paragraph 3.13 of the Procurement Guidelines for contracts procured by RPOs. |
| (d) Direct Contracting. |
| (e) Community Participation in Procurement procedures, as set forth in the Operational Manual. |

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 Consultant's Qualifications</td>
</tr>
<tr>
<td>(b) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(c) Least Cost Selection</td>
</tr>
<tr>
<td>(d) Procedures set forth in Paragraphs 5.1 and 5.5 of the Consultants Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(e) Commercial Practices pursuant to paragraph 3.13 of the Consultant Guidelines, for contracts procured by RPOs.</td>
</tr>
<tr>
<td>(f) Single Source Selection</td>
</tr>
<tr>
<td>(g) Fixed- Cost Selection</td>
</tr>
<tr>
<td>(h) Sole Source Procedures for the selection of Individual Consultants set forth in paragraph 5.6 of the Consultant Guidelines</td>
</tr>
</tbody>
</table>

D. Review by the Bank of Procurement Decisions

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

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, Non-Consulting Services and Consultants’ Services required for Productive Subprojects under Part 1(b) of the Project</td>
<td>42,800,000</td>
<td>100% of the amount disbursed under a Matching Grant</td>
</tr>
<tr>
<td>(2) Goods, works, Non-Consulting Services and Consultants’ Services required for Infrastructure Subprojects under Part 2(a) of the Project</td>
<td>37,444,000</td>
<td>100% of the amount disbursed under a Matching Grant</td>
</tr>
<tr>
<td>(3) Good, works, Consultants’ Services, Non-Consulting Services and Training (except those covered by Categories (1) and (2) above) required for the Project</td>
<td>12,906,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Operating Costs</td>
<td>4,000,000</td>
<td>50%</td>
</tr>
<tr>
<td>(5) Front-end Fee</td>
<td>250,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(6) Interest Rate Cap or Interest Rate Collar premium</td>
<td>-0-</td>
<td>Amount due pursuant to Section 2.07(c) of this Agreement</td>
</tr>
<tr>
<td>(7) Unallocated</td>
<td>2,600,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>100,000,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section:

(a) the term “Operating Costs” means the reasonable incremental operational costs (which would not have been incurred absent the Project), related to Project monitoring and supervision incurred by ProRural under the
Project, excluding expenditures for civil servant salaries and related benefits; and

(b) the term "Training" means expenditures (other than those for Goods, Non-Consulting Services and Consultants' services) incurred by the Borrower to finance reasonable transportation costs and per diem of trainees and trainers (if applicable), accommodations, catering, rental of training facilities, as well as materials and equipment under the Project.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed $10,000,000 equivalent may be made for payments made on or after August 1, 2011, but in all cases twelve months prior to the Signature Date, for Eligible Expenditures under Categories (1), (2), (3) and (4) of the table in Section IV of this Schedule.

2. The Closing Date is January 31, 2019. The Bank will grant an extension of the Closing Date after the Guarantor's Ministry of Finance has informed the Bank that it agrees with such an extension.

C. Other Undertakings

Without limitation to the provisions of Section 5.03 of the General Conditions, the Borrower shall provide the amount of Thirty Five Million Two Hundred and Fifty Thousand Dollars ($35,250,000) as counterpart funds required for Project implementation.
SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15 Beginning May 15, 2018 through May 15, 2040</td>
<td>2.17%</td>
</tr>
<tr>
<td>On November 15, 2040</td>
<td>2.35%</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


2. “Business Plan” means a long-term, voluntary, commercial relationship, proposed by an LPA to ProRural in accordance with relevant provisions of the Operational Manual, aimed at meeting market demands, and based on arrangements to carry out jointly developed investments, including Subprojects, and undertake mutual commercial transactions.

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


5. “Environmental and Social Management Framework or ESMF” means the Borrower’s framework dated June 28, 2011, as published and available to the public on the website www.prorural.pe.gov.br, satisfactory to the Bank, which contains the environmental protection measures in respect of the Project, including measures for chance finding of cultural property, protection of natural habitats and pest management, identification of existing environmental conditions and potential direct and indirect environmental impacts resulting from the carrying out of the Project (including Subprojects), recommendation of mitigation measures for each negative impact identified, as well as measures for enhancing each identified positive impact.


7. “Indigenous Peoples” means the indigenous peoples recognized as such by the Guarantor’s Fundação Nacional do Índio, the National Indian Foundation established and operating pursuant to the provisions of the Guarantor’s Decree No. 4645, dated March 25, 2003, as eligible to benefit from the constitutional and other legal protection as indigenous peoples.

8. “Indigenous Peoples’ Planning Framework or IPPF” means the Borrower’s framework dated June 30, 2011, published and available to the public on the website www.prorural.pe.gov.br, satisfactory to the Bank, detailing measures to mitigate any adverse impact on Indigenous Peoples as a result of any activity
carried out under the Project (including Subprojects) and to ensure that they benefit from the Project, including procedures for the preparation and implementation of the pertinent Indigenous Peoples development plans.

9. “Infrastructure Subprojects” means any eligible complementary rural investment aimed at extending the Borrower’s basic rural infrastructure network (including acquisition of small-scale rural water supply systems (including cisterns), rural sanitation (including septic systems); reduction and/or elimination of bottlenecks in the flow of value-added production along the producer chain (e.g., small bridges, all-weather crossings, minor road reforms)), identified and prioritized in a Business Plan, or approved by the Borrower in accordance with relevant provisions of the Operational Manual and to be partly financed with a Matching Grant under a Subproject Agreement for the activities set forth in Part 2(a) of the Project and to be carried out by a RPO.

10. “LPA” means a local productive alliance comprised of a cluster of RPOs, small and medium enterprises, technical service providers (both public and private), financial and academic institutions, and/or non-governmental organizations, all located in the Borrower’s territory, in mutually beneficial commercial arrangements within a given value chain.

11. “Matching Grants” means a financial transfer from the Borrower to a selected RPO, for the partial financing of an eligible Subproject, subject to the specific terms and conditions set forth in the Operational Manual and the relevant Subproject Agreement.

12. “Non-Consulting Services” means the costs of services which are of non-intellectual nature and that can be procured on the basis of performance of measurable physical outputs, including unskilled labor, installation of equipment, repairs and/or maintenance services.

13. “Operational Manual” means the manual for the operation of the Project referred to in Section I.A.4 of Schedule 2 to this Agreement.


15. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated January 31, 2012 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.

16. “Productive Subprojects” means any eligible productive and market-oriented, small-scale infrastructure, cultural and/or environmental investment (including
water supply, sanitation, electricity, and environmental activities) identified and prioritized in a Business Plan, or as approved by the Borrower in accordance with the relevant provisions of the Operational Manual and to be partly financed with a Matching Grant under a Subproject Agreement for the activities set forth in Part 1(b) of the Project and to be carried out by a RPO.

17. "ProRural" means the Borrower's technical unit within SARA, created through Decreto Estadual No. 10,090 of January 18, 1985, and referred to in Section 1.A.2 of Schedule 2 to this Agreement.

18. "Resettlement Policy Framework or RPF" means the document prepared by the Borrower and dated June 30, 2011, published and available to the public on the website www.prorural.pe.gov.br, satisfactory to the Bank, and outlining general implementation procedures, mitigation measures and monitoring procedures for involuntary resettlement under the Project, as said framework may be amended from time to time with the Bank's prior approval.

19. "RPO" means a rural producer-based organization vested with legal personality and/or a group of rural citizens organized into a legally established private association, all of which, upon meeting the criteria set forth in the Operational Manual, is eligible to receive a Matching Grant on behalf of its members, for the carrying out of either a Productive Subproject under Part 1(b) of the Project or an Infrastructure Subproject under Part 2(a) of the Project.

20. "Results Management Framework" means the Borrower's strategy created under Law No. 141 of September 3, 2009 (Todos por Pernambuco, Gestão Democrática e Regionalizada com Foco em Resultados), for the promotion and extension of sustainable development both geographically, and socio-economically (e.g. targeting the rural poor, Indigenous Peoples and Quitombolas), integrating actions across the Borrower's territory, within SARA and the Project.

21. "SARA" means Secretaria de Agricultura e Reforma Agrária, the Borrower's Secretariat of Agriculture and Agrarian Reform, or any successor thereof.

22. "Signature Date" means the latest of the two dates on which: (i) the Bank and the Borrower signed the Loan Agreement; and (ii) the Guarantor and the Bank signed the Guarantee Agreement, and such definition applies to all references to "the date of the Loan Agreement" and/or "the date of the Guarantee Agreement" in the General Conditions.

23. "Steering Committee" means the committee referred to in Section 1.A.1 of Schedule 2 to this Agreement.
24. "Subproject" means any Productive Subproject and/or any Infrastructure Subproject.

25. "Subproject Agreement" means each agreement to be entered into between the Borrower, through SARA-ProRural, and an eligible RPO, as specified in Section C of Schedule 2 to this Agreement.