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**LOAN NUMBER 8966- BR**

OFFICIAL DOCUMENTS

# Loan Agreement

**(Mato Grosso Fiscal Adjustment and Environmental Sustainability Development Policy Loan -**
***Empréstimo de Política de Desenvolvimento com Sustentabilidade Fiscal e Ambiental no Estado de Mato Grosso)***

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**and**

**STATE OF MATO GROSSO**

**LOAN NUMBER 8966- BR**

# LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and STATE OF MATO GROSSO ("Borrower") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement).

WHEREAS (A) the Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; (b) the Guarantor's maintenance of an adequate macroeconomic policy framework; and (c) the Borrower's maintenance of: (i) an appropriate expenditure program; (ii) sustainable debt; and (iii) appropriate fiscal arrangements with the Guarantor.

Whereas (B) the Borrower has informed the Bank that, upon deposit by the Bank of the proceeds of the Loan (on the terms set forth in Section II of Schedule 1 to this Agreement, for purposes of supporting the Program and in compliance with Article 1 paragraph 1 of its Law No. 10.862 dated April 4, 2019) into an account to be designated by the Borrower, the Borrower will regain fiscal sustainability and increase institutional capacity for sustainable agriculture, forest conservation and climate change mitigation.

The Bank and the Borrower therefore hereby agree as follows:

## ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form 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 the amount of two hundred fifty million Dollars (USD250,000,000), as such amount may be converted from time to time through a Currency Conversion ("Loan").

2.02. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.

2.03. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.04. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions. In addition, the Borrower shall pay to the Bank a transaction fee at a rate of 0.02 percent per annum. The transaction fee is expressed as a percentage per annum on the outstanding Loan amount and is payable monthly at each Payment Date.

2.05. The Payment Dates are the 15th of each calendar month.

2.06. The principal amount of the Loan shall be repaid in accordance with Schedule 2 to this Agreement.

2.07. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

2.08. Without limitation upon the provisions of Section 4.01 of the General Conditions, the Borrower may request a Conversion of the terms of the Loan, in each case with the prior non-objection of the Guarantor, through its Secretariat of the National Treasury of the Guarantor's Ministry of Economy.

2.09. (a) If on any given day, the Total Exposure exceeds the Standard Exposure Limit (as said terms are defined in sub-paragraphs (b)(ii) and (b)(iii) of this Section), the Borrower shall pay to the Bank a surcharge at the rate of one half of one percent (0.5%) per annum of the Allocated Excess Exposure Amount (as defined in sub-paragraph (b)(i) of this Section) for each said day ("Exposure Surcharge"). The Exposure Surcharge (if any) shall be payable semi-annually in arrears on each Payment Date.

(b) For purposes of this Section the following terms have the meanings set forth below:

(i) "Allocated Excess Exposure Amount" means for each day during which the Total Exposure exceeds the Standard Exposure Limit, the product of: (A) the total amount of said excess; and (B) the ratio of all (or, if the Bank so determines), a portion of the Loan to the aggregate amount of all (or the equivalent portions) of the loans made by the Bank to the Borrower, the Guarantor and to other borrowers guaranteed by the Guarantor that are also subject to an exposure surcharge, as said excess and ratio are reasonably determined from time to time by the Bank.

(ii) "Standard Exposure Limit" means the standard limit on the Bank's financial exposure to the Guarantor which, if exceeded, would subject the Loan to the Exposure Surcharge, as determined from time to time by the Bank.

(iii) "Total Exposure" means for any given day, the Bank's total financial exposure to the Guarantor, as reasonably determined by the Bank.

2.10. The Borrower agrees that the modifications to the Reference Rate and the Variable Spread requested by the Borrower and reflected in Section II of the Appendix hereto shall be treated as a Conversion and the relevant provisions of the General Conditions, including, without limitation, Section 3.04(c) and 4.01(f) of the General Conditions, shall apply.



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## ARTICLE III — PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:

(a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on: (i) the Borrower's maintenance of, an appropriate expenditure program; sustainable debt; and appropriate fiscal arrangements with the Guarantor, as referred to in the introductory paragraph of this Agreement; (ii) the progress achieved in carrying out the Program and the actions specified in Section I of Schedule 1 to this Agreement; and (iii) any situation that could affect said maintenance and progress under subparagraphs (i) and (ii) above;

(b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of and exchange views with the Bank on any situation that would have the effect of materially: (i) impairing the Borrower's ability to maintain an appropriate expenditure program, sustainable debt and/or fiscal arrangements with the Guarantor; or (ii) reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

## ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following:

(a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

(b) An action has been taken or a policy has been adopted by the Borrower to reverse any action or policy under the Program including any action listed in Section I of Schedule 1 to this Agreement.

4.02. The Additional Event of Acceleration consists of the following, namely that any event specified in paragraphs (a) or (b) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

## ARTICLE V — EFFECTIVENESS; TERMINATION

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

(a) The Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Guarantor's macroeconomic policy framework.

(b) That the Bank is satisfied with the Borrower's maintenance of an appropriate expenditure program, sustainable debt and appropriate fiscal arrangements with the Guarantor.

5.02. The Effectiveness Deadline is the date 90 (ninety) days after the Signature Date.

## ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is its Governor.

6.02. For purposes of Section 10.01 of the General Conditions: (a) the Borrower's address is:

Secretaria de Estado de Fazenda - SEFAZ
Av. Historiador Rubens de Mendonça, 3.415 –
Centro Político Administrativo
Cuiabá, MT 78049-936Brazil; and

(b) the Borrower's Electronic Address is:

E-mail: ege.divida@sefaz.mt.gov.br or gsf@sefaz.mt.gov.br

6.03. For purposes of Section 10.01 of the General Conditions: (a) the Bank's address is:

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

(b) the Bank's Electronic Address is:

| Telex: | Facsimile: | E-mail: |
|---|---|---|
| 248423(MCI) or 64145(MCI) | 1-202-477-6391 | panoscasero@worldbank.org |

AGREED as of the Signature Date.

**STATE OF MATO GROSSO**

**By** _____

**Authorized Representative**

**Name:** mauro mendes ferreira

**Title:** Governor

**Date:** September 6, 2019

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**By** Paloma Anós.

**Authorized Representative**

**Name:** Paloma Anós Casero

**Title:** Country Director

**Date:** September 6, 2019

## SCHEDULE 1

### Program Actions; Availability of Loan Proceeds

**Section I.** **Actions Taken Under the Program**

The actions taken by the Borrower under the Program include the following:

**Pillar A - Supporting the Borrower's Efforts to Regain Fiscal Sustainability**

1. The Borrower has enacted legislation that clarifies and tightens personnel spending limits and sets targets for current savings, as evidenced by the adoption and publication of the Borrower's fiscal responsibility law (Law No 614/2019) dated February 5, 2019 as published on the Borrower's official gazette on February 5, 2019 and published on the following website: http://www5.sefaz.mt.gov.br/acoes-mt-bird.

2. The Borrower has enacted legislation that conditions annual adjustments of the Borrower's civil servants' salaries on the Borrower's fiscal capacity, as evidenced by the adoption and publication of the Borrower's Law No 10.819/2019 dated January 28, 2019 as published on the Borrower's official gazette on January 28, 2019 and published on the following website: http://www5.sefaz.mt.gov.br/acoes-mt-bird.

3. The Borrower has enacted legislation that strengthens the governance of MTPREV by transferring the authority to approve actuarial studies and propose financing plans, as evidenced by the adoption and publication of the Borrower's Law No 613/2019 dated January 28, 2019 as published on the Borrower's official gazette on January 28, 2019 and published on the following website: http://www5.sefaz.mt.gov.br/acoes-mt-bird.

4. The Borrower has enacted legislation that establishes its State Fiscal Equilibrium Fund to increase public revenues from companies benefitting from tax incentives, as evidenced by the adoption and publication of the Borrower's Law No 10.709/2018 dated June 28, 2018 as published on the Borrower's official gazette on June 28, 2018 and published on the following website: http://www5.sefaz.mt.gov.br/acoes-mt-bird.

5. The Borrower has enacted legislation that increases the per-unit levies charged on agricultural commodities produced in the Borrower's territory, as evidenced by the adoption and publication of the Borrower's Law No 10.818/2019 dated January 28, 2019 as published on the Borrower's official gazette on January 28, 2019 and published on the following website: http://www5.sefaz.mt.gov.br/acoes-mt-bird.

**Pillar B - Increasing Institutional Capacity for Sustainable Agriculture, Forest Conservation and Climate Change Mitigation**

1. The Borrower has enacted regulation that improves prevention and control of illegal deforestation and forest fires through remote sensing, early warning and swift response, as evidenced by the adoption and publication of the Borrower's Decree No 1490 dated May 15, 2018 as published on the Borrower's official gazette on May 15, 2018 and published on the following website: http://www5.sefaz.mt.gov.br/acoes-mt-bird.

2. The Borrower has improved the transparency and effectiveness of the Rural Environmental Registry and of the Program for Environmental Regularization through: (i) the definition of procedures and oversight for the Rural Environmental Registry and the Program for Environmental Regularization, as evidenced by the agreement (*Termo de Compromisso Ambiental*) signed among the Borrower's Public Prosecutor, the Borrower's Secretary for Environment and the Borrower's Secretary for Public Security, dated January 25, 2019 as published on the Borrower's official gazette on February 12, 2019 and published on the following website: http://www5.sefaz.mt.gov.br/acoes-mt-bird; and (ii) the definition of operational procedures for public access to environmental information, as evidenced by the settlement (*Termo de Ajustamento de Conduta*) signed between the Borrower's Public Prosecutor and the Borrower's Secretary for Environment, dated November 12, 2018 as homologated on March 12, 2019, renegotiated on March 21, 2019, published on the Borrower's official justice gazette on March 15, 2019, and published on the following website: http://www5.sefaz.mt.gov.br/acoes-mt-bird.

3. The Borrower has enacted regulation that strengthens the implementation of its PCI Strategy and institutional capacity (including by appointing the PCI Institute as the independent agency to implement its PCI Strategy) in order to improve agricultural production while protecting its forests, as evidenced by the adoption and publication of the Borrower's Decree No 46 dated February 27, 2019 as published on the Borrower's official gazette on February 27, 2019 and published on the following website: http://www5.sefaz.mt.gov.br/acoes-mt-bird.

**Section II. Availability of Loan Proceeds**

**A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

**B. Allocation of Loan Amounts.** The Loan is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

| Allocations | Amount of the Loan Allocated (expressed in USD) |
|---|---|
| (1)Single Withdrawal Tranche | 250,000,000 |
| TOTAL AMOUNT | 250,000,000 |

**C. Withdrawal Tranche Release Conditions.**

1. No withdrawal shall be made of the Single Withdrawal Tranche unless:

(a) the Bank is satisfied with the adequacy of the Guarantor's macroeconomic policy framework and the progress achieved by the Borrower in the carrying out of the Program;

(b) the Bank is satisfied that the Borrower is maintaining an appropriate expenditure program, sustainable debt and appropriate fiscal arrangements with the Guarantor; and

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(c) the Bank has received payment of the Front-end Fee, in accordance with Section 3.01 (a) of the General Conditions and Section 2.02 of this Agreement.

**D. Deposit of Loan Amounts.**

1. Notwithstanding the provisions of Section 2.03 of the General Conditions:

(a) the Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain a dedicated account on terms and conditions satisfactory to the Bank; and

(b) the withdrawal from the Loan Account shall be deposited by the Bank into said dedicated account.

2. The Borrower, within thirty (30) days after each withdrawal from the Loan Account, shall report to the Bank: (a) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (b) the record that an equivalent amount has been accounted for in the Borrower's budget management systems; and (c) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

**E. Closing Date.** The Closing Date is December 31, 2021. The Bank may grant an extension of the Closing Date only after the Guarantor's Ministry of Economy has informed the Bank that it agrees with such extension.

## SCHEDULE 2

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").

| Principal Payment Date | Installment Share |
|---|---|
| On each 15 of each calendar month Beginning September 15, 2019 through December 15, 2038 | 0.42918% |
| On January 15, 2039 | 0.43024% |

## APPENDIX

**Section I. Definitions**

1. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for IBRD Financing, Development Policy Financing", dated December 14, 2018 with the modifications set forth in Section II of this Appendix.

2. "Guarantor" means the Federative Republic of Brazil.

3. "MTPREV" means the Borrower's pension agency (*Mato Grosso Previdência*), established and operating in accordance with the Borrower's Law No. 560 (*Lei Complementar*) dated December 31, 2014, or any successor thereto acceptable to the Bank.

4. "PCI Institute" means *Instituto Produzir, Conservar e Incluir*, the institute created to support the Borrower's public policies related to the PCI Strategy, as established and operating pursuant to the Borrower's Decree No. 46 dated February 27, 2019, or any successor thereto acceptable to the Bank.

5. "PCI Strategy" means the Borrower's strategy (*Estratégia: Produzir, Conservar e Incluir*) to mobilize funds to improve the efficiency of its agricultural production and environmental protection as established and operating pursuant to the Borrower's Decree No. 468 dated March 31, 2016.

6. "Program" means the program of objectives, policies, and actions set forth or referred to in the letter dated March 21, 2019 from the Borrower to the Bank declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program's objectives.

7. "Program for Environmental Regularization" means the Borrower's program established and operating in accordance with the Borrower's Law No. 592, dated May 26, 2017, or any successor thereto acceptable to the Bank.

8. "Rural Environmental Registry" means the Borrower's rural environmental registry established and operating in accordance with the Borrower's Law No. 592, dated May 26, 2017, or any successor thereto acceptable to the Bank.

9. "Signature Date" means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to "the date of the Loan Agreement" in the General Conditions.

10. "Single Withdrawal Tranche" means the amount of the Loan allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

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11. "State Fiscal Equilibrium Fund" means the Borrower's fund established and operating in accordance with the Borrower's Law No 10.709, dated June 28, 2018, or any successor thereto acceptable to the Bank.

**Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. The term "LIBOR" under definition 66 of the General Conditions is modified to read as follows:

"66. "LIBOR" means for any Interest Period, the London interbank offered rate for deposits in the relevant Loan Currency for one-month, expressed as a percentage per annum, that appears on the Relevant Rate Page as of 11:00 a.m. London time on the Reference Rate Reset Date for the Interest Period."

2. The term "Reference Rate" under definition 87, sub-paragraph (a) of the General Conditions is modified to read as follows:

"87. "Reference Rate" means, for any Interest Period:

(a) for USD, JPY and GBP, LIBOR for the relevant Loan Currency. If such rate does not appear on the Relevant Rate Page, the Bank shall request the principal London office of each of four major banks to provide a quotation of the rate at which it offers one-month deposits in the relevant Loan Currency to leading banks in the London interbank market at approximately 11:00 a.m. London time on the Reference Rate Reset Date for the Interest Period. If at least two such quotations are provided, the rate for the Interest Period shall be the arithmetic mean (as determined by the Bank) of the quotations. If less than two quotations are provided as requested, the rate for the Interest Period shall be the arithmetic mean (as determined by the Bank) of the rates quoted by four major banks selected by the Bank in the relevant Financial Center, at approximately 11:00 a.m. in the Financial Center, on the Reference Rate Reset Date for the Interest Period for loans in the relevant Loan Currency to leading banks for one month. If less than two of the banks so selected are quoting such rates, the Reference Rate for the relevant Loan Currency for the Interest Period shall be equal to the respective Reference Rate in effect for the Interest Period immediately preceding it; [...]"

3. The term "Variable Spread" under definition 101 of the General Conditions is modified to read as follows:

"101. "Variable Spread" means, for each Interest Period: (a) (1) the Bank's standard lending spread for Loans in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement; (2) minus (or plus) the weighted average margin, for the Interest Period, below (or above) the Reference Rate for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by it to fund loans that carry interest at a rate based on the Variable Spread; (3) plus a Basis Swap Adjustment; and (4) plus a maturity premium, as applicable; as reasonably

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determined by the Bank and expressed as a percentage per annum; and (b) in case of Conversions, the variable spread, as applicable, as determined by the Bank in accordance with Conversion Guidelines and notified to the Borrower pursuant to Section 4.01(c)."

4. A new term "Basis Swap Adjustment" is added as definition 104 to the General Conditions to read as follows:

"104. "Basis Swap Adjustment" means the adjustment in rate (whether positive or negative) that results from a basis swap transaction executed by the Bank with respect to the London inter-bank offered rate for six-month deposits into "LIBOR" as defined above and subject to Section 3.02(c) of the General Conditions, as reasonably determined by the Bank at the time of withdrawal of an amount of the Loan."