

CONFORMED COPY

LOAN NUMBER 2861 BR

(Northeast Rural Development Project - Minas Gerais)

between

STATE OF MINAS GERAIS

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated July 20, 1987  
as Amended

LOAN NUMBER 2861 BR

PROJECT AGREEMENT

AGREEMENT, dated July 20, 1987, between STATE OF MINAS GERAIS (hereinafter called the State) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by the Loan Agreement of even date herewith between the Federative Republic of Brazil (hereinafter called the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to eighty four million dollars (\$84,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the State agree to undertake such obligations toward the Bank as are hereinafter set forth;

WHEREAS the State, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

## Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) The State shall carry out and cause the Executing Entities to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and agricultural practices, and, without in any way limiting the obligation of the Borrower under Section 3.01 (b) of the Loan Agreement, shall provide whenever needed, in a timely manner, all funds, facilities, services and other resources necessary for the carrying out of the Project.

(b) Without limitation to the foregoing, and for purposes of carrying out the Project, the State shall: (i) take all actions necessary to ensure the availability of the counterpart funds to be provided by the State for the carrying out of the Project in a timely manner; (ii) maintain TU with functions, staff and organizational structure satisfactory to the Bank, inter alia, as provided for in Schedule 3 to this Agreement, and with the authority for, inter alia, entering into agreements, administering funds, and making payments; and (iii) cause TU to enter into agreements with Associates and the Executing Entities, on terms and conditions satisfactory to the Bank, such agreements to contain, inter alia: (A) the obligation of the Associates and of the Executing Entities to carry out their respective Parts of the Project in accordance with the terms and conditions of this Agreement and of the Loan Agreement, when applicable; (B) the obligation of TU to provide the resources required by the Associates and the Executing Entities to carry out their obligations, with specific reference to the terms on which the funds will be transferred and disbursed; (C) the obligation of the Associates and of the Executing Entities to furnish to TU periodic reports on physical and financial indicators showing the progress on the execution of their respective Parts of the Project; and (D) the right of the TU to suspend disbursements in respect of Associates or of Executing Entities and to unilaterally terminate the agreement in case of failure by any such Associate or Executing Entity to carry out its obligations in a diligent manner.

(c) The State shall cause TU to prepare a consolidated monitoring summary on the implementation of the Project during each semester, of such scope and in such detail as shall be satisfactory to the Bank, and to furnish each such report to SUDENE and the Bank no later than three months after the end of each semester.

(d) The State shall cause TU to: (i) prepare, in consultation with SUDENE, a POA and a budget for the Project for each fiscal year; and (ii) furnish to the Bank and to SDR, for review, by not later than November 30 of each year, any such POA for the following year.

(e) Except as the Bank shall otherwise agree, the preparation, appraisal, execution, supervision, monitoring and evaluation of Subprojects shall be done in accordance with Schedule 1 to this Agreement.

(f) The State shall cause TU to enter into agreements, satisfactory to the Bank, with public or private entities acceptable to the Bank, for the Provisional Execution of a Subproject by such entities.

(g) The State shall cause TU to prepare, jointly with the Beneficiary, Subprojects to be carried out under Part I of the Project, and to provide SUDENE and the Bank, by not later than December 31, 1992, the Subprojects to be carried out under such part of the Project, together with the justification of their technical, economic, financial and managerial feasibility.

(h) The State shall: (i) cause TU to establish an account under terms and conditions satisfactory to the Bank, in a financial institution acceptable to the Bank, the proceeds of such account to be used exclusively for expenditures related to

the carrying out the Project, and (ii) promptly deposit in such account all advances received from the Borrower or SUDENE pursuant to Section 3.01 (c) (ii) of the Loan Agreement, in addition to all counterpart funds to be provided by the State pursuant to Section 2.01 (b) of this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods and works required for the Project and to be financed out of the proceeds of the Loan and the employment of consultants to assist the State and the Executing Entities in carrying out the Project shall be governed by the provisions of Schedule 2 to this Agreement.

Section 2.03. The State shall enable the Bank's representatives to examine all plants, installations, sites, works, buildings, property and equipment of the State and any relevant records and documents in respect of the Project.

Section 2.04. (a) The State shall, at the request of the Bank, exchange views with the Bank and SUDENE with regard to the progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) The State shall promptly inform the Bank and SUDENE of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by the State of its obligations under this Agreement.

Section 2.05. The State shall carry out, or cause to be carried out, the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project.

### ARTICLE III

#### Other Covenants

Section 3.01. (a) The State shall maintain, and cause TU and the Executing Entities to maintain, separate accounts (including the account referred to in Section 2.01 (h) of this Agreement) and records adequate to reflect in accordance with consistently maintained appropriate accounting practices their respective operations, resources and expenditures in respect of the Project, including, without limitation to the foregoing, separate accounts reflecting all expenditures on account of which withdrawals are requested from the Loan Account on the basis of statements of expenditure.

(b) The State shall retain and cause TU and the Executing Entities to retain, until one year after the Closing Date, copies of all records (contracts, orders, invoices, bills, receipts and other documents) evidencing the expenditures on account of which withdrawals are requested from the Loan Account on the basis of statements of expenditure, and shall enable the Bank's representatives to examine such records.

Section 3.02. The State shall:

(a) cause the accounts referred to in Section 3.01 (a) of this Agreement for each fiscal year to be audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (i) certified copies of the accounts referred to in Section 3.01 (a) of this Agreement as so audited; and (ii) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested, including, without limitation to the foregoing, separate opinions by said auditors in respect of the expenditures and records referred to in Section 3.01 (b) of this Agreement, as to whether the proceeds of the Loan made available to it and withdrawn from the Loan Account on the basis of statements of expenditure have been used for the purpose for which they were provided; and

(c) furnish to the Bank such other information concerning the accounts referred to in Section 3.01 (a) of this Agreement, as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 3.03. The State and the Bank agree that access to land of an adequate quality and secure tenure for small-scale farmers is important for sustained rural development in the State and for successfully carrying out the Project. To that effect the State shall take and cause to be taken all actions necessary to acquire and make available for redistribution to Project Beneficiaries suitable land in the area where the Project is carried out, selected in accordance with criteria satisfactory to the Bank, including the following:

- (a) an amount of not less than 301,000 hectares by March 31, 1989; and
- (b) an additional amount of not less than 299,000 hectares by March 31, 1990.

Section 3.04. The State shall carry out, or cause to be carried out, the action plans referred to in Section 3.01 (f) of the Loan Agreement.

Section 3.05. Unless the Bank shall otherwise agree, the State shall: (a) cause the Beneficiaries of Subprojects that include works for Small Productive Community Investments to contribute with fifteen percent of the costs of such works, in cash or in kind;

(b) cause the Beneficiaries of Subprojects that include Small Rural Infrastructure Investments to contribute with fifteen percent of the costs of such Investments, in cash or in kind, provided, however, that such contribution may also be made by the municipality or municipalities in whose territory such Subproject is to be carried out;

(c) take all actions, satisfactory to the Bank, to recover the public expenditures towards the cost of Small Productive Community Investments under Part I of the Project, from the Beneficiaries to whose benefit such investments are made, over a period of no more than fifteen years after the respective expenditure is incurred, with up to four years of grace, with interest and adjustment of the outstanding amount from time to time, to reflect the variations in the TRD for each respective period, provided, however, that the amount of the expenditures to be so recovered, except in the case of investments for agricultural marketing, may be reduced by thirty percent. For this purpose, the State shall enter, before such public expenditures are made, into agreements with the Beneficiaries concerned, satisfactory to the Bank, providing for the obligation of such Beneficiaries to repay such public expenditures, and into arrangements with one or several financial institutions located in the State, satisfactory to the Bank, providing for the administration of the recovery of such funds through the services of such financial institutions; and

(d) take all actions, satisfactory to the Bank, to recover the capital cost of the common irrigation facilities constructed under Parts A and I of the Project, and, except for the first year of operation of such facilities, shall cause the Associacao concerned to collect the recurrent cost of operation and maintenance of the respective irrigation schemes incurred from the Beneficiaries forming such Associacao. For the purposes of this paragraph, the capital cost of the common irrigation facilities shall be adjusted annually, to reflect the variations in the TRD for each year.

#### ARTICLE IV

##### Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of the State thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the State thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

##### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the State:

Secretaria de Estado de Coordenacao e Desenvolvimento  
Rua da Estrela, No. 350  
65.000 Sao Luis, Maranhao  
Brazil

Telex:

98-2369

With copies to:

(i) Departamento de Assuntos Internacionais  
Ministerio da Economia, Fazenda e Planejamento  
Esplanada dos Ministerios, Bloco "K" - 5o andar  
70063 Brasilia, D.F.  
Brazil

Telex:

61-2207

(ii) Departamento de Desenvolvimento Regional  
Secretaria do Desenvolvimento Regional da  
Presidencia da Republica  
Esplanada dos Ministerios - Bloco "E" - 7o andar  
70062 Brasilia, D.F.  
Brazil

Telex:

61-2509

For the Bank:

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:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the State may

be taken or executed by the State's Secretario de Coordenacao e Desenvolvimento or such other person or persons as such Secretario shall designate in writing, and the State shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized have caused this Agreement to be signed in their respective names in Brasilia, Brazil, as of the day and year first above written.

STATE OF MINAS GERAIS

By /s/ Eptacio Cafeteira

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jan Wijnand

Authorized Representative

#### SCHEDULE 1

#### Terms and Conditions of Subprojects

##### Preparation and Appraisal

1. Each Subproject shall be prepared by TU, in consultation with the prospective Beneficiary.
2. Subprojects shall be carried out by an Associacao, under management and organizational arrangements satisfactory to TU, SUDENE and the Bank. In exceptional cases, and for a limited period of time to be determined by SUDENE and the Bank on a case by case basis, a Subproject may be provisionally executed by a private or public entity designated by TU, and acceptable to SUDENE and the Bank.
3. The preparation of Subprojects shall follow guidelines and criteria satisfactory to SDR, SUDENE and the Bank, as amended from time to time.
4. Proposals for Subprojects shall contain, inter alia, information on the overall objective, purposes, instruments, activities, environmental impact, responsibilities, schedules and resources for each Subproject, as well as quantitative indicators of the achievement of its objective, means to verify such achievements, assumptions regarding external factors that may affect its performance, activity schedules, resources required and responsibilities for the carrying out of such activities. For this purpose TU shall prepare for each Subproject, and present to SUDENE and to the Bank, a document, satisfactory to the Bank, such document to serve as the basis for planning, management of Subproject execution, supervision, monitoring and evaluation of each respective Subproject.
5. Subprojects proposed and approved shall have an economic internal rate of return of not less than 12% or an economic net present value of no less than zero at a discount rate of 12%, and shall not exhibit negative projected net cash flows after financing and debt service for individual Beneficiaries and for Associacaes.
6. Subproject proposals shall be submitted by TU to SUDENE for appraisal, in accordance with formats satisfactory to SUDENE and the Bank, as amended from time to

time. SUDENE shall submit proposals approved by it to the Bank for review and approval.

7. Subprojects approved by the Bank and SUDENE shall be included in the POA for each year in which the respective Subproject is being carried out.

#### Implementation

8. Subprojects shall be carried out after:

(a) approval by SUDENE and the Bank has been obtained for the Subproject;

(b) the necessary budget for the first year of implementation has been made effectively available by the State;

(c) a specific Subproject agreement (Convenio de Subprojeto) has been entered into between the State and the Associacao or the entity responsible for Provisional Execution, under terms and conditions satisfactory to the Bank, including, inter alia, the obligation of the Associacao or entity to procure the goods, works and services required under the Subprojects in accordance with procedures acceptable to the Bank, and to maintain separate accounts for expenditures made under Subprojects, and to have such separate accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; and

(d) a Subproject manager and administrative staff, satisfactory to SUDENE and the Bank, have been employed by the Associacao or entity in charge of Provisional Execution, and any managerial and technical assistance contracts proposed for the Subproject, satisfactory to the Bank, have been signed.

9. TU shall not participate in the carrying out of any Sub-project, but shall be available for consultation by the Associacao, and shall provide the necessary training to the managerial and administrative staff of the Associacao in charge of the execution of the Subproject.

10. TU shall monitor and supervise the implementation of the Subproject with regard to its technical, financial and managerial aspects, in accordance with the document established for the respective Subproject referred to in paragraph 4 above and with the implementation and reporting schedule agreed with the Beneficiary or entity responsible for Provisional Execution from time to time.

11. TU shall not make any payments for expenditures under contracts entered into by a Beneficiary or an entity responsible for Provisional Execution, unless any such contract has been duly approved by TU prior to being signed.

12. TU shall report to SUDENE, from time to time, on the progress of the implementation of the Subprojects and on any technical, financial and managerial problems encountered, according to schedules and formats agreed between the TU and SUDENE, satisfactory to the Bank, as amended from time to time.

13. Any change in the design and parameters of an approved Subproject, as specified in the document referred to in paragraph 4 above for each Subproject, shall not be effected without the prior approval of SUDENE and the Bank to such change.

14. TU shall carry out, or cause to be carried out, from time to time during and after the execution of a Subproject, evaluations of the achievement of Subproject targets as defined in the document referred to in paragraph 4 above for each Subproject, shall formulate appropriate recommendations on the basis of such evaluations, and shall present to SDR, SUDENE and the Bank, as soon as available, the results of its evaluations and recommendations.

#### SCHEDULE 2

#### Procurement and Consultants' Services

I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Brazil may be granted a margin of preference in accordance with, and subject to the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto, provided, however, that:

(a) All bidding documents for the procurement of goods shall clearly indicate any preference which would be granted, the information required to establish the eligibility of a bid for such preference and the following methods and stages that will be followed in the evaluation and comparison of bids.

(b) After evaluation, responsive bids will be classified in one of the following two groups:

(1) Group A: bids offering goods manufactured in Brazil if the bidder shall have established to the satisfaction of the Borrower and the Bank that such goods contain components manufactured in Brazil equal to at least 50% of the value of the completed goods; and

(2) Group B: bids offering any other goods.

(c) In order to determine the lowest evaluated bid of each group, all evaluated bids in each group shall first be compared among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, or the sales and similar taxes levied in connection with the sale or delivery of the goods pursuant to the bids. Such lowest evaluated bids shall then be compared with each other, and if, as a result of this comparison, a bid from group A is the lowest, it shall be selected for the award.

(d) If, as a result of the comparison under paragraph (c) above, the lowest evaluated bid is a bid from group B, all group B bids shall be further compared with the lowest evaluated bid from group A after adding: (i) to the evaluated bid price of goods to be imported in each group B bid an amount equal to the smaller of: (A) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in such group B bid; or (B) 15% of the c.i.f. bid price of such goods; and (ii) to the ex-factory bid of goods supplied domestically offered in each group B bid an amount equal to the smaller of: (A) the amount of customs duties and other import taxes which would be levied on the goods offered in such group B if they originated from the same foreign country as the bid included in group B which enjoys the lowest customs duties and other import taxes; or (B) 15% of the ex-factory bid price of such goods. If, as a result of this comparison, the bid from group A is the lowest, it shall be selected for the award; if not, the lowest evaluated bid from group B, as determined under paragraph (c) above, shall be selected for the award.

Part C: Other Procurement Procedures

1. Works estimated to cost less than the equivalent of \$5,000,000, but more than the equivalent of \$150,000, up to an aggregate amount equivalent to \$17,000,000, and goods estimated to cost less than the equivalent of \$250,000, but more than the equivalent of \$50,000, up to an aggregate amount equivalent to \$10,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.



2. Works estimated to cost the equivalent of \$150,000 or less, up to an aggregate amount equivalent to \$4,000,000, and goods estimated to cost the equivalent of \$50,000 or less, up to an aggregate amount equivalent to \$3,500,000, may be procured on the basis of evaluation of price quotations from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to: (i) contracts procured under Part A of this Schedule; (ii) the first three contracts awarded on the basis of competitive bidding advertised locally, irrespective of their cost; (iii) other civil works contracts estimated to cost the equivalent of \$1,000,000 or more; and (iv) other contracts for goods estimated to cost the equivalent of \$100,000 or more; the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply; provided, however, that where payments for such contract are to be made out of the proceeds of the Special Account, the two conformed copies of the contract required to be furnished to the Bank, pursuant to paragraph 2 (d) of Appendix 1 to the Guidelines, shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply; provided, however, that where payments for such contract are to be made out of the proceeds of the Special Account, the two conformed copies of the contract required to be furnished to the Bank, pursuant to paragraph 3 of Appendix 1 to the Guidelines together with the other information specified therein, shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure.

2. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

II. Employment of Consultants

In order to assist the State and the Executing Entities in carrying out the Project, the State shall employ and cause the Executing Entities to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

III. Other Provisions

For purposes of this Schedule and the Guidelines, the term "customs duties and other import taxes" includes FSRMM.

SCHEDULE 3

Functions, Structure and Staffing of TU

1. TU shall perform, inter alia, the following functions:

(a) coordination of the identification, planning and preparation of Subprojects, including the execution of necessary studies, in consultation with the prospective Beneficiaries of such Subprojects, with the technical assistance provided for under the Project;

(b) preparation and presentation to SUDENE of Subproject proposals, including

the documents referred to in paragraph 4 of Schedule 1 to this Agreement, concerning of the technical, financial, economic and managerial viability of Subprojects;

(c) mobilization of prospective Beneficiaries, promotion of the participation of Beneficiaries in the planning and preparation of Subprojects, identification of suitable organizational arrangements for the execution of Subprojects, and assistance in the formation of Associacaes and in the establishment of a management of Associacaes, prior to the execution of a Subproject;

(d) formulation of POAs;

(e) making available to Associacaes or to entities in charge of the Provisional Execution funds for the carrying out of Sub-projects, and exercising the financial control of the expenditures made by Associacaes or entities;

(f) field supervision of Subproject implementation;

(g) monitoring of the carrying out of Subprojects and of the research activities under Part B of the Project;

(h) evaluation of the impact of the Subprojects with regard to their objectives, purposes and targets, with the technical assistance provided for under the Project;

(i) accounting for all funds received and expenditures made under the Project, with the exception of the funds allocated to Part D and to Subloans under Part I of the Project; and

(j) training of Beneficiaries, their representatives and managerial and administrative personnel of the Associacaes, in the conduct of the affairs of the Associacaes, their management and administration.

2. TU shall be composed of the following organizational units:

(a) the office of the coordinator, including a coordinator, a deputy coordinator and an evaluation and planning committee;

(b) an administrative unit, charged with the administration of TU, its administrative funds, personnel, equipment and vehicles, and responsible for the administration of the funds allocated to the Project (with the exception of those allocated to Subloans under Part I of the Project), including the transfer of funds to Associacaes and other Executing Entities, and the accounting for and control of such funds;

(c) a planning and evaluation unit charged with the functions listed in subparagraphs (a), (b), (c), (d) and (h) of paragraph 1 above; and

(d) a supervision and monitoring unit, charged with the supervision and monitoring of the implementation of Subprojects, through field supervision and analysis of monitoring reports from the Associacaes.

3. The higher level staff of TU shall consist of about 49 persons, including the coordinator, the deputy coordinator and the head of each unit.

