

CONFORMED COPY

LOAN NUMBER 3547 BR

Loan Agreement

(Santa Catarina State Highway Management Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

STATE OF SANTA CATARINA

Dated December 22, 1992

LOAN NUMBER 3547 BR

LOAN AGREEMENT

AGREEMENT, dated December 22, 1992, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF SANTA CATARINA (the Borrower).

WHEREAS: (A) Federative Republic of Brazil (the Guarantor) and the Borrower, having satisfied themselves as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Central Bank" means the Central Bank of Brazil, Banco Central do Brasil, established by Lei No. 4.595, dated December 31, 1964;

(b) "Contract Maintenance Plan" means the plan referred to in Section 3.11 of this Agreement;

(c) "Contract Management and Monitoring Program" means the program referred to in Section 3.12 of this Agreement;

(d) "DER" means Departamento Estadual de Estradas de Rodagem, the Borrower's Roads Department;

(e) "DNER" means Departamento Nacional de Estradas de Rodagem, the Guarantor's Roads Department;

(f) "DNER Agreement" means the agreement, satisfactory to the Bank, to be entered into between DER and DNER, for purposes of the provision by DNER of technical assistance and training to DER, with respect to the implementation of the Borrower's road rehabilitations and maintenance programs;

(g) "Eligible Subproject" means a Subproject which meets the eligibility criteria set forth in the Operational Manual and has been approved by the Bank for financing under the Project, after reviewing the information to be provided by the Borrower on such Subproject pursuant to Section 3.07 of this Agreement;

(h) "Environmental Control Plan" means the plan referred to in Section 3.13 of this Agreement;

(i) "FSRMM" means Adicional ao Frete Para a Renovaos da Marinha Mercante, the Guarantor's Freight Surcharge for the Renewal of the Merchant Marine established by Decree Law 1,142 of December 30, 1970, as amended to December 31, 1987, or any other tax, levy or charge that, in the reasonable opinion of the Bank, may substitute it, in whole or part, after January 1, 1988;

(j) "GEIPOT" means Empresa Brasileira de Planejamento de Transportes, the Guarantor's Transport Planning Agency;

(k) "Operational Manual" means the operational manual (Manual Operacional) issued by DNER in June, 1992, as the same may be amended with the agreement of the Bank;

(l) "Pavement Management System Committee" means the committee referred to in Section 3.10 of this Agreement;

(m) "Pavement Management System Plan" means the action plan referred to in

Section 3.09 of this Agreement;

(n) "PMU" means the Borrower's Project management unit established in DER pursuant to Resolu §o 59/92, of the Administrative Council of DER, of April 3, 1992;

(o) "State Environmental Guidelines" means the Borrower's guidelines, satisfactory to the Bank, for transport environmental protection, covering all transport subsectors under the Borrower's responsibility;

(p) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(q) "Subproject" means a specific investment project consisting of pavement rehabilitation or resurfacing of paved roads under the responsibility of the Borrower, including those set forth in the Termo de Acordo; and

(r) "Termo de Acordo" means the agreement entered into between DNER and DER on April 28, 1992, as amended from time to time, assigning to DER the jurisdiction and maintenance responsibility over certain federal paved roads in the territories of the Borrower.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of fifty million dollars (\$50,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1998 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this

Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency, in accordance with the Operational Manual, and in conformity with appropriate engineering, administrative, road safety, maintenance, environmental and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 6 to this Agreement.

(c) Without limitation to the foregoing, the Borrower shall select the specific Subprojects to be financed with the proceeds of the Loan and carry out its road rehabilitation and maintenance activities in accordance with the criteria and requirements set forth in the Operational Manual.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

(b) Standard bidding documents and letters of invitation satisfactory to the

Bank shall be utilized in the procurement of goods, works and consultant's services (as applicable) required for the Project and to be financed out of the proceeds of the Loan.

Section 3.03. The Borrower shall provide, promptly as needed, all the funds, facilities, staff and resources required by the PMU to carry out its functions and responsibilities in a timely and efficient manner.

Section 3.04. The Borrower, through DER, shall:

(a) prepare annual and pluriannual expenditure and funding programs for road investments and routine maintenance in accordance with the policies and economic criteria set forth in the Operational Manual;

(b) not later than July 31 each year, furnish such programs to the Bank for comments;

(c) take into account the Bank's comments when preparing its annual budget; and

(d) allocate in its yearly budget not less than the equivalent to three million dollars for paved road routine maintenance activities; and

(e) maintain PMU, at least until the completion of the Project, with staffing, responsibilities and functions (including the qualifications and experience of its manager) satisfactory to the Bank;

Section 3.05. The Borrower, through DER, shall select the road segments to be included in its annual rehabilitation and resurfacing programs (including the Subprojects) on the basis of: (a) network maintenance strategy and pluriannual programs, (periodically updated and refined consistently with the development of the Pavement Management System), satisfactory to the Bank; (b) funding expectations for the given year; and (c) appropriate technical and economic criteria and methodologies as set forth in the Operational Manual.

Section 3.06. Prior to initiating detailed engineering designs of each Subproject, the Borrower, through DER, shall prepare and submit to the Bank, with copy to DNER, a draft financing application (of such form and detail as the Bank shall reasonably request) providing information on: (a) the analysis carried out and the rationale for selection; (b) the road condition and traffic data; (c) the diagnostic of the problems and the recommended engineering solution; (d) the estimated cost of works; (e) the result of a preliminary economic evaluation; (f) the proposed implementation schedule, all as specified in the Operational Manual; and (g) such other matters as the Bank shall reasonably request, provided, however, that all recommended engineering solutions shall be consistent with a policy, satisfactory to the Bank, selected by the Borrower for the network-level analysis of road rehabilitation and resurfacing programs as a whole, including the timing of the investment.

Section 3.07. When presenting a Subproject to the Bank for approval, the Borrower, through DER, shall furnish to the Bank an application, in form and substance satisfactory to the Bank, which shall: (a) update the information provided to the Bank pursuant to Section 3.06 of this Agreement on the basis of the Bank's comments thereon and the final engineering designs; and (b) contain such other information as the Bank shall reasonably request in respect of such Subproject.

Section 3.08. In carrying out the training programs included under the Project, the Borrower, through DER, shall:

(a) furnish to the Bank for approval the content of such programs as well as the schedule for their implementation;

(b) select the beneficiaries of such training programs in accordance with criteria satisfactory to the Bank;

(c) not later than October 31 of each year during the execution of the Project, exchange views with the Bank on the training programs to be carried out in

the following calendar year;

(d) furnish to the Bank a report of such scope and detail as the Bank shall reasonably request, on the results of each of such training programs and the benefits to be derived therefrom.

(e) consult with DNER on the design and execution of such training programs and selection of beneficiaries thereunder; and

(f) furnish to DNER copies of any reports sent to the Bank pursuant to paragraph (d) of this Section.

Section 3.09. (a) Not later than June 30, 1993, the Borrower, through DER, shall, under terms of reference satisfactory to the Bank, prepare and present to the Bank, for comments, a detailed action plan (the Pavement Management System Plan) including a timetable, to develop and implement a pavement management system, aimed at improving the planning and monitoring of paved road network maintenance strategies and programs. Such action plan shall provide for the development and operation of a computerized road database, the strengthening of DER's procedures and techniques used for pavement condition and traffic surveys, pavement diagnostics and designs, cost-benefit analyses and programming, and for the improved integration of these activities.

(b) Taking into account the Bank's comments on the Pavement Management System Plan, the Borrower shall promptly start the implementation of such plan, which shall be completed not later than September 30, 1994.

Section 3.10. The Borrower shall maintain in DER a committee (the Pavement Management System Committee) with membership structure, functions and responsibilities satisfactory to the Bank, to oversee and coordinate the development and application of the Pavement Management System.

Section 3.11. (a) Not later than June 30, 1993, the Borrower, through DER, shall, under terms of reference satisfactory to the Bank, prepare and present to the Bank for its comments, a plan (the Contract Maintenance Plan), including a timetable, to undertake and/or gradually increase routine maintenance activities by contractors, and to reduce force account capacities.

(b) Taking into account the Bank's comments on the Contract Maintenance Plan, the Borrower shall promptly start the implementation of such plan, which shall be completed not later than September 30, 1997.

Section 3.12. (a) Not later than June 30, 1993, the Borrower, through DER, shall, under terms of reference satisfactory to the Bank, prepare and present to the Bank for comments, a detailed action program (the Contract Management and Monitoring Program) to strengthen its administrative systems for contract management and for program monitoring, including the monitoring of the rehabilitation, resurfacing and routine maintenance components of the Project, and for reporting progress to the Bank, in accordance with the guidelines included in the Operational Manual.

(b) Taking into account the Bank's comments on the Contract Management and Monitoring Program, the Borrower shall promptly start the implementation of such program, which shall be completed not later than September 30, 1993.

Section 3.13. (a) Not later than June 30, 1993, the Borrower shall:

(i) prepare the State Environmental Guidelines taking into account:  
(A) DNER's environmental guidelines for the roads subsector,  
published in 1992; (B) GEIPOT's environmental guidelines for  
the transport sector, published in 1992; and (C) the Guarantor's  
and the Borrower's environmental protection standards; and

(ii) strengthen the environmental units in DER and in the Borrower's  
Secretariat of Transport with adequately-trained staff for the  
implementation of the State Environmental Guidelines.

(b) The Borrower, through DER, shall, starting not later than June 30, 1993,

carry out environmental impact assessments, satisfactory to the Bank, of all its major road programs and projects, including the Subprojects, such assessments to be based on the State Environmental Guidelines.

Section 3.14. Without limitation to the provisions of Section 9.07 of the General Conditions, the Borrower, through DER, shall prepare and furnish to the Bank (with copies to DNER), not later than January 31, April 30, July 31 and October 31 of each year, a report of such scope and in such detail as the Bank shall reasonably request, including monitoring indicators satisfactory to the Bank on the execution of the Project, and the compliance by the Borrower of its obligations under this Agreement.

Section 3.15. (a) Without limitation to the provisions of Section 9.01 of the General Conditions, and not later than December 31, 1994, the Borrower shall, through DER, exchange views with the Bank, with regard to the progress of the execution of the Project, the performance of its respective obligations under this Agreement, and on the achievement of the objectives of the Project.

(b) At least 30 days prior to the exchange of views referred to in paragraph (a) of this Section, the Borrower, through DER, shall prepare and furnish to the Bank a report, of such scope and detail as the Bank shall reasonably request, describing the Borrower's actions with respect to the execution of the Project and the status thereof and of its obligations under this Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual

audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that the parties to the DNER Agreement shall have not complied with their respective obligations therein set forth or the DNER Agreement shall have been amended, waived or terminated, provided, however, that any such event shall not be considered for purposes of this Section if the Borrower shall have made alternative arrangements, satisfactory to the Bank, for the provision of technical assistance and training to DER with respect to the Borrower's road rehabilitation and maintenance program.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of thirty (30) days after notice thereof shall have been given by the Bank to the Borrower.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) that the Loan Agreement has been duly registered by the Central Bank;
- (b) that sufficient funds in amounts satisfactory to the Bank shall have been included in the Borrower's budget or budget proposal to cover all counterpart financing required for the first year of Project implementation after the date of this Agreement; and
- (c) that the DNER Agreement has been entered into between the parties thereto.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

- (a) that the Loan Agreement has been duly registered by the Central Bank; and
- (b) that all acts, consents and approvals, together with all necessary powers and rights in connection therewith, have been duly and validly performed or given and that no other such acts, consents or approvals are required to authorize the carrying out of the Project and to enable the Borrower and the Guarantor to perform all of their respective covenants, agreements and obligations contained in this Agreement and the Guarantee Agreement, respectively.

Section 6.03. The date March 23, 1993 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The General Director of the DER is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.



Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

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)

For the Borrower:

Departamento de Estradas de Rodagem  
Rua Tenente Silveira, 162-1o Andar  
88010 Florianopolis, Santa Catarina  
Brazil

Telex:

(482)609

With copies to:

SEAIN - Secretaria de Assuntos Internacionais  
Secretaria de Planejamento, Ornamento e Coordenacao  
da Presidencia da Republica  
Esplanada dos Ministerios - Bloco K - 5o Andar  
70063 Brasilia, DF  
Brazil

Telex:

061-1146

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Edilberto Segura

Acting Regional Vice President  
Latin America and the Caribbean

STATE OF SANTA CATARINA

By /s/ Pedro Kleinubing

Authorized Representative

Witnessed by:

By /s/ Paulo Gouvea da Costa  
Edgar Antonio Roman

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works under Part B.1 of the Project	37,400,000	50%
(2) Equipment under Part A of the Project	1,000,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
(3) Consultants' services and training under Parts A and B of the Project	3,900,000	100% of foreign expenditures and 50% of local expenditures
(4) Unallocated	7,700,000	
TOTAL	50,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceed the equivalent of \$5,000,000, may be made in respect of the Project on account of payments made for expenditures before that date but after June 1, 1992; and (b) expenditures under a Subproject unless it is an Eligible Subproject.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to reduce the deterioration of the Borrower road network, including those roads set forth in the Termo de Acordo, by improving the Borrower's policy making, managerial, environmental protection and technical capacity with respect to road maintenance and rehabilitation; and (b) to contribute to the resumption of

economic growth by reducing the cost of road transport.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives.

The Project consists of the following Parts:

Part A: Policy and Institutional Development

A technical assistance and training program aimed at helping the Borrower to: (a) prepare pluriannual and annual road maintenance and rehabilitation expenditure and funding programs based on adequate policies and economic criteria; (b) develop and implement a pavement management system designed to help preparing and monitoring appropriate road rehabilitation and maintenance strategies and programs; (c) strengthen contract and project management systems; and (d) implement and monitor the State Environmental Guidelines.

Part B: Roads Maintenance and Rehabilitation

1. An investment program consisting of the execution of Eligible Subprojects; and
2. A program for the routine maintenance of the roads under the responsibility of the Borrower, including those set forth in the Termo de Acordo.

\* \* \*

The Project is expected to be completed by June 30, 1998.

#### SCHEDULE 3

##### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15 beginning March 15, 1998 through September 15, 2007	2,500,000

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\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

#### Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years but not maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section 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 1992 (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 the provisions of the Guidelines, provided, however, that:

1. 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.
2. After evaluation, responsive bids will be classified in one of the following two groups:
  - (a) 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 complete goods.

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

3. 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.

4. If, as a result of the comparison under paragraph 3 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 price 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 such imported 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 3 above, shall be selected for the award.

#### Part C: Other Procurement Procedures

1. Civil works estimated to cost the equivalent of less than \$5,000,000 per contract, up to an aggregate amount equivalent to \$40,000,000 and subject to paragraph 3 below, goods estimated to cost less than \$250,000 equivalent but more than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Subject to paragraph 3 below, goods estimated to cost the equivalent of \$50,000 or less per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Unless the Bank shall otherwise agree, contracts for goods procured under paragraphs 1 and 2 above shall not exceed in the aggregate the equivalent of \$1,000,000.

#### 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 each contract for civil works estimated to cost the equivalent of \$5,000,000 or more, each contract for goods estimated to cost the equivalent of \$250,000 or more and the first two contracts for civil works to be awarded pursuant to the provisions of Part C.1 of this Section, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) 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. Where payments for such contract are to be made out of the Special Account,

said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Part E: FSRMM

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

## Section II. Employment of Consultants

In order to assist the Borrower in the carrying out of the Project, the Borrower shall 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.

### SCHEDULE 5

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$4,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall

have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

#### SCHEDULE 6

##### Implementation Program

##### Project Procurement and Execution Targets (Km of roads)

Project item	Activity	1992	1993	1994	1995	1996
Rehabilitation	Contracted	141	161	139	77	30
	Executed	28	153	177	100	90

Resurfacing	Contracted	150	267	230	190	63
	Executed	75	209	261	270	85

