

CONFORMED COPY

LOAN NUMBER 3100 BR

(Parana Municipal Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

STATE OF PARANA

Dated August 14, 1989

LOAN NUMBER 3100 BR

LOAN AGREEMENT

AGREEMENT, dated August 14, 1989, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF PARANA (the Borrower).

WHEREAS (A) The Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Section 3.01 of 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 words "and Sub-projects" are added after the words "the Project" at the end of Section 5.03; and

(b) the last sentence of Section 3.02 is deleted.

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

(b) "SEDU" means Secretaria de Estado do Desenvolvimento Urbano e do Meio Ambiente, the Borrower's Secretariat of Urban Development and Environment;

(c) "FAMEPAR" means Fundacao de Assistencia aos Municipios do Estado do Parana, the Borrower's Foundation for the Assistance of Municipalities;

(d) "FDU" means Fundo Estadual de Desenvolvimento Urbano, the Borrower's Urban Development Fund;

(e) "FDU Law" means the Borrower's Law No. 8,917 of December 15, 1988, which established FDU;

(f) "FDU Regulation" means the Borrower's Decree No. 5192, dated June 12, 1989, which contains the Regulations of the FDU Law;

(g) "FDU Manual" means the financial and operating procedures of FDU set forth in Resolution No. 03/89 dated July 20, 1989 of the Administration Council of FDU;

(h) "PEDU" means Programa Estadual de Desenvolvimento Urbano, the Borrower's Urban Development Plan;

(i) "SANEPAR" means Companhia de Saneamento do Parana-Sanepar, the Borrower's State Water Company;

(j) "COHAPAR" means Companhia de Habitacao Popular do Parana, the Borrower's Low Income Housing Company;

(k) "BANESTADO" means Banco do Estado do Parana, the Borrower's State Bank;

(l) "FAP" means Financial Action Plan, the plan referred to in paragraph (c) of Schedule 4 to this Agreement;

(m) "Tariff Law" means Law No. 6,528 of the Guarantor, dated May 11, 1978, published in Diario Oficial of May 12, 1978, as amended to the date of this Agreement;

(n) "FRSMM" means Adicional ao Frete Para a Renovacao da Marinha Mercante - AFRMM, 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 in part, after January 1, 1988;

(o) "Municipality" means any duly established municipality of the Borrower;

(p) "Sub-borrower" means a Municipality, SANEPAR, COHAPAR or any other agency of the Borrower participating in the carrying out of PEDU;

(q) "Eligible Sub-borrower" means a Sub-borrower which meets the eligibility conditions set forth in Schedule 4 to this Agreement and the Manual, which has entered into a Participation Agreement (as such term is hereinafter defined) with the Borrower through FAMEPAR and has been accepted by the Bank and the Borrower for the purpose of carrying out one or more Sub-projects (as such term is hereinafter defined);

(r) "Investment Program" means an investment program of a Municipality of up to three years, appraised by the Borrower, acting through FAMEPAR, and approved by the Bank, and including individual Sub-projects to be carried out over such period, as such investment program may be updated from time to time in agreement with the Bank;

(s) "Sub-project" means a specific project to be carried out by a Municipality, SANEPAR, COHAPAR or any other agency of the Borrower participating in PEDU, consisting of one or more of the following:

(i) improvement of public infrastructure, including street paving, drainage, erosion control, water supply and basic sanitation, solid waste management, road rehabilitation, construction of small bridges and pedestrian crossings, site preparation works and rehabilitation of slums;

(ii) improvement or construction of, and equipment for, community facilities, including schools and school extensions, day care centers, health posts and fire stations;

(iii) titling services, technical assistance and construction of, and provision of financing for, small housing units (up to 50 square meters) for Low Income Families (as such term is hereinafter defined);

(iv) toxic waste management; and

(v) provision of engineering services related to the activities referred to in sub-paragraphs (i) to (iv) hereof;

(t) "Minimum Wage" means Piso Nacional de Salarios, the minimum wage referred to in Article 1 of the Guarantor's Decree Law No. 2,351 of August 7, 1987, or such other minimum wage index acceptable to the Bank;

(u) "Manual" means the set of seven operating manuals setting forth lending policies and procedures approved by the Borrower for purposes of the Project on July 20, 1989, as such Manual may be amended from time to time by agreement between the Borrower and the Bank;

(v) "Low Income Family" means a family whose total household income (as determined by COHAPAR in accordance with methods and procedures as set forth in the Manual) is not higher than five Minimum Wages;

(w) "Eligible Sub-project" means a Sub-project which meets the Sub-project Eligibility criteria set forth in Schedule 3 and 6 to this Agreement and the Manual (as hereinafter defined) and which has been approved by the Borrower, acting through FAMEPAR or PCU for financing under the Loan;

(x) "Sub-loan" means a loan, partially financed out of the proceeds of the Loan, made or proposed to be made by the Borrower, through a Financial Agent, to an Eligible Sub-borrower for the financing of an Eligible Sub-project;

(y) "Sub-loan Agreement" means an agreement entered into or to be entered into between the Borrower, through a Financial Agent, and an Eligible Sub-borrower for the purpose of making a Sub-loan;

(z) "Participation Agreement" means the agreement, satisfactory to the Bank, to be entered into between the Borrower, and each Municipality or SANEPAR or COHAPAR or other Sub-borrower pursuant to Section 3.09 of this Agreement;

(aa) "Central Bank" means Banco Central do Brasil, the Central Bank of Brazil;

(bb) "Cruzado Novo" means the currency of the Guarantor;

(cc) "grants" mean non-reimbursable cash contributions made by the Borrower to Sub-borrowers under PEDU;

(dd) "Technical Cooperation Agreement" means an agreement, Acordo de Cooperacao Tecnica, between FAMEPAR and specialized agencies of the Borrower referred to in Section 3.06 of this Agreement;

(ee) "Financial Agency Agreement" means the agreement between the Borrower and a Financial Agent referred to in Section 3.05 of this Agreement;

(ff) "Technical Assistance Program" means the technical assistance program included in Part I of the Project and referred to in Section 3.07 of this Agreement;

(gg) "Housing Sub-project" means a Sub-project, as so defined, consisting of one or more of the activities set forth in subparagraph (iii) of paragraph (s) of this Section;

(hh) "LRMC Study" means the study referred to in Section 2.06 of the Project Agreement;

(ii) "Project Agreement" means the agreement between the Bank and SANEPAR of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(jj) "FAMEPAR Agreement" means the agreement between the Borrower, through SEDU, and FAMEPAR referred to in Section 3.01 (c) (i) of this Agreement;

(kk) "Housing Loan" means a loan, partially financed out of the proceeds of a Sub-loan, made or proposed to be made by COHAPAR to a Low Income Family to finance one or more activities included in a Housing Sub-project;

(ll) "FDU Investment" means a specific investment project, financed or to be financed with FDU's resources, which meets the eligibility criteria set forth in the Manual and in the FDU Manual;

(mm) "FDU Loan" means a loan made or proposed to be made by the Borrower out of FDU's own resources to finance an FDU Investment;

(nn) "Toxic Waste Sub-project" means a Sub-project, as so defined, which includes toxic waste management activities;

(oo) "SUREHMA" means Superintendencia dos Recursos Hidricos e Meio Ambiente, the Borrower's agency of environmental protection;

(pp) "Financial Agent" means BANESTADO or any other financial institution, acceptable to the Bank, which is acting or will act as financial agent for the Borrower under the Project;

(qq) "PCU" means Unidade de Coordenacao, FDU's Project Coordinating Unit referred to in Section 3.01 (e) of this Agreement;

(rr) "IPARDES" means Instituto Paranaense de Desenvolvimento Economico e Social, the Borrower's institute of social and economic development;

(ss) "COMEC" means Coordenacao da Regiao Metropolitana de Curitiba, the Borrower's agency for metropolitan Curitiba; and

(tt) "SUCEAM" means Superintendencia de Controle da Erosao e Saneamento

Ambiental, the Borrower's superintendency for soil erosion control and environmental health.

## 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 one hundred million dollars (\$100,000,000), 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 for: (i) 65% of amounts paid (or, if the Bank shall so agree, for amounts to be paid) by a Financial Agent to an Eligible Sub-borrower on account of withdrawals made by such Eligible Sub-borrower under a Sub-loan to meet the reasonable cost of: (A) works contracts, (B) materials required for works carried out under force account, (C) equipment, and (D) engineering services required to carry out an Eligible Sub-project; or (ii) 50% of amounts paid (or, if the Bank shall so agree, for amounts to be paid) by the Borrower to meet the reasonable cost of: (A) technical assistance services required for carrying out Part I of the Project described in Section 3.01 (a) of this Agreement, and (B) materials, equipment, travel and subsistence, and courses under the Technical Assistance Program.

(b) Notwithstanding the provisions of paragraph (a) of this Section, except as the Bank shall otherwise agree, no withdrawals shall be made on account of: (i) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000, may be made on accounts of payments made for expenditures for technical assistance and works made before that date but after March 3, 1989; or (ii) expenditures made by an Eligible Sub-borrower under an Eligible Sub-project if such expenditures shall have been made more than 180 days prior to the date on which the Bank shall have received in respect of the respective Sub-loan the request and information required by Schedule 3 to this Agreement; or (iii) expenditures made by an Eligible Sub-borrower under an Eligible Sub-project, unless the respective Sub-loan shall have been made not later than three months before the Closing Date; or (iv) expenditures under Part I of the Project if the amounts disbursed from the Loan Account for that purpose are equal to or exceed the equivalent of \$8,000,000, (or such other greater amount as the Bank shall determine by notice to the Borrower); or (v) expenditures under Sub-loans to finance Sub-projects estimated to cost the equivalent of \$3,000,000 or more, unless the Bank shall have approved a detailed technical, financial, economic, environmental, institutional and legal appraisal of such Sub-project, carried out by the Borrower through FAMEPAR; or (vi) expenditures under a Sub-loan to finance a Housing Sub-project, unless the Bank shall have approved a detailed social, technical and financial appraisal (including a description of the intended beneficiaries) of such Sub-project prepared by COHAPAR and approved by PCU; or (vii) expenditures under a Sub-loan to finance a Sub-project which entails relocation of families, unless the Bank shall have approved the respective resettlement plan and the Sub-borrower has assumed a legally binding commitment to carry out such plan; or (viii) expenditures for goods which importation has been prohibited or suspended by the Guarantor, or (ix) expenditures under a Sub-loan to finance a Toxic Waste Sub-project, unless the Bank shall have approved a detailed technical, environmental and economic appraisal of such Sub-project prepared by SUREHMA; or (x) expenditures under the first three Sub-loans to be financed out of the proceeds of the Loan, unless the Bank shall have previously notified the Borrower that the respective FAPs, Investment Programs, Eligible Sub-projects and the terms and conditions of each such Sub-loan have been reviewed and found acceptable by the Bank; (xi) notwithstanding the foregoing, expenditures under paragraph (a)(i)(B) of this Section shall not exceed in the aggregate the equivalent of \$4,000,000.

(c) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in the Central Bank, on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1994 or such later date as

the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 per cent ( $3/4$  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."

(e) Notwithstanding the provisions of paragraph (a) of this Section, the interest rate for the Interest Period commencing in the first Semester of 1989 shall be seven and sixty-five hundredths percent (7.65%).

Section 2.06. Interest and other charges shall be payable semiannually on April 1 and October 1 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 1 to this Agreement.

#### ARTICLE III

Description of the Project;  
Arrangements for the Execution of the Project

Section 3.01. (a) The objectives of the Project are: (i) to improve the managerial and institutional capacity and fiscal efficiency of the Municipalities and agencies of the Borrower to plan, finance and execute cost effective projects and programs; (ii) to provide basic economic and social infrastructure to urban areas of the Borrower; (iii) to decentralize urban administration and financial management for urban areas of the Borrower, by means of transfer of administrative and financial responsibilities from federal to state levels to the Municipalities, improving the coordination of urban development and environmental policy and investment decisions at each of those levels; (iv) to improve the targeting of urban development programs to the lower income population; and (v) to strengthen FDU as a source of long-term financing for urban development.

The Project consists of the following Parts:

Part I

A technical assistance program to improve the managerial, technical, financial and planning capabilities of FAMEPAR, COHAPAR, SANEPAR, other Borrower agencies and the Municipalities. The program also includes technical assistance to the Borrower, FAMEPAR, COHAPAR, other Borrower agencies and Municipalities for the preparation and supervision of Part I of the Project.

Part II

(a) Execution of Eligible Sub-projects by Eligible Sub-borrowers and the provision by the Borrower of financial assistance for the purpose through Sub-loans and Grants.

(b) The Borrower declares its commitment to the objectives of the Project as set forth in paragraph (a) of this Section and, to this end, shall carry out, and cause the Eligible Sub-borrowers to carry out, the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, ecological, and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(c) As part of the foregoing, the Borrower, through SEDU, shall: (i) enter into an agreement, satisfactory to the Bank, with FAMEPAR, which shall, inter alia, define PCU's and FAMEPAR's participation in, and provide FAMEPAR sufficient power and authority to represent the Borrower in all aspects of, the execution of the Project; (ii) enter into Sub-loan Agreements with a Financial Agent and the Eligible Sub-borrowers, on terms and conditions satisfactory to the Bank, which shall include, inter alia, the obligations of the Borrower, the Financial Agent and each Eligible Sub-borrower, as set forth in this Section and in Schedule 3 to this Agreement; (iii) exercise, or cause FAMEPAR and a Financial Agent to exercise, its rights under the FAMEPAR Agreement and each Sub-loan Agreement in such a manner as to protect the interests of the Bank, the Borrower and Financial Agent, and to accomplish the purposes of the Loan; (iv) make grants to Municipalities to finance the carrying out of Sub-projects as provided in Section 3.03 of this Agreement; and (v) establish, maintain and adequately staff, in terms satisfactory to the Bank, a central and regional offices of FAMEPAR for purposes of supervising the execution of the Project.

(d) For purposes of the execution and overall supervision and coordination of the Project and the Administration of the FDU, the Borrower shall maintain in SEDU a project coordinating unit (the PCU), adequately staffed and with functions and responsibilities satisfactory to the Bank.

(e) The Borrower shall, acting through PCU or FAMEPAR: (i) select the Sub-borrowers for the purpose of entering into a Sub-loan Agreement in accordance with the selection criteria for Eligible Sub-borrowers set forth in Schedule 4 to this Agreement;

(f) The Borrower, through PCU, shall promptly furnish to the Bank all reports and other documents or instruments prepared or issued by SANEPAR pursuant to the Project Agreement and its Participation Agreement.

Section 3.02. 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 5 to this Agreement.

Section 3.03. In order to assist the Municipalities in the carrying out of PEDU, the Borrower shall:

(a) allocate in its budget adequate amounts for the execution of the Project and for making grants to Municipalities and other agencies of the Borrower for the purposes set forth in this Section, such amounts to be agreed annually between the Bank and the Borrower; and

(b) make such grants to finance Toxic Waste Sub-projects and Sub-projects consisting of the construction, improvement and/or equipment of community facilities, provided that the amount of each such grant shall not exceed the equivalent of 30% of the cost of the respective Sub-project or FDU Investment or 15% of the Sub-loan or FDU loan made to finance such Sub-project or FDU Investment, whichever is greater.

Section 3.04. (a) The Borrower shall cause the Eligible Sub-borrowers to carry 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 Part I of the Project, as provided in paragraphs 5 and 6 of Schedule 3 to this Agreement;

(b) the Borrower shall carry out the obligations set forth in Sections 9.06 and 9.07 of the General Conditions (relating to plans and schedules and records and reports) in respect of this Agreement;

(c) as part of the foregoing, the Borrower, through PCU, shall:

(i) starting not later than October 31, 1989, prepare and furnish to the Bank quarterly progress reports on the execution of the Project, of such scope and detail as the Bank shall reasonably request including specific detailed information on (A) availability of counterpart funds, (B) financial performance of Sub-borrowers by region, size and type, and (C) the status of execution of Part I of the Project;

(ii) monitor the economic, financial and fiscal impact of the execution of the Project in accordance with indicators set forth in the Manual;

(iii) not later than October 31 of each year, report to, and exchange views with the Bank on the results of such monitoring;

(iv) not later than October 31 of each year, report to, and exchange views with, the Bank on:

(A) borrowing capacity and creditworthiness of the Municipalities, SANEPAR, COHAPAR and other Eligible Sub-borrowers;

(B) resource allocation, including grants and Sub-loans, under PEDU by region, type of Municipalities and nature of investments for the current and forthcoming calendar years;

(C) indicators of fiscal, financial and cost recovery performance of the Sub-borrowers; and

(D) status of implementation of the Technical Assistance



Program;

(v) based on the foregoing, prepare, not later than October 31 of each year, an annual investment program for PEDU, satisfactory to the Bank, including all Sub-projects to be carried out during such calendar year; and

(vi) prepare, through PCU, the project completion report referred to in Section 9.07 (c) of the General Conditions.

Section 3.05. (a) The Borrower and each Financial Agent shall enter into an agreement, satisfactory to the Bank providing for the participation of each Financial Agent, as financial agent of the Borrower, in the carrying out of the Project by making of Sub-loans. Such agreement shall, inter alia, (i) regulate the transfer of part of the proceeds of the Loan to the Financial Agent and the Eligible Sub-borrowers, and (ii) define the obligations of the Financial Agent under the Project, including those set forth or referred to in this Agreement.

(b) Unless the Bank shall otherwise agree, the Borrower and the Financial Agents shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Financial Agency Agreement or any provision thereof.

Section 3.06. The Borrower shall cause FAMEPAR and relevant specialized agencies of the Borrower such as IPARDES, SUREHMA, SUCEAM and COMEC to:

(a) enter into an agreement, satisfactory to the Bank, providing for joint participation of FAMEPAR and each such agency in the supervision of the execution of Sub-projects by Eligible Sub-borrowers and in the provision of assistance for the procurement of goods and services to be financed out of the proceeds of the Loan and FDU Loans; and

(b) perform all of their obligations under such agreement and, except as the Bank shall otherwise agree, not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Technical Cooperation Agreement or any provision thereof.

Section 3.07. (a) the Borrower, acting through FAMEPAR, shall: (i) evaluate the technical assistance requirements of the Municipalities and the Borrower's agencies participating in the execution of the Project and PEDU; (ii) not later than October 31 of each year, furnish to the Bank for review and comment a technical assistance program for the Municipalities and such agencies; (iii) taking into consideration the comments made by the Bank, finalize and carry out such program according to a timetable satisfactory to the Bank.

(b) The Technical Assistance Program referred to in paragraph (a) of this Section shall include assistance in: (i) the design, tendering and supervision of works; (ii) the preparation of town planning surveys, zoning and circulation plans; (iii) cadastral registration; (iv) recovery of the investment costs of Sub-projects through (A) betterment charges to the direct beneficiaries of street-related improvements, (B) periodic user charges for services provided, and (C) incremental urban real estate tax, following assessment and periodic reassessment of urban real property; (v) preparation and management of budgets of the Municipalities; and (vi) other technical and financial areas determined by the evaluation referred to in paragraph (a) (i) of this Section.

(c) The Technical Assistance Program shall provide for the participation of staff of the Municipalities and Borrower's agencies in specific training courses and programs.

(d) The Borrower shall provide technical assistance to Eligible Sub-borrowers under the Project in accordance with an annual program, satisfactory to the Bank, to be prepared by each Eligible Sub-borrower and FAMEPAR, not later than September 30 of each year. Such program shall contain a detailed description of the technical assistance activities and staffing, material and equipment requirements for such Eligible Sub-borrower and FAMEPAR for the next calendar year.

Section 3.08. (a) The Borrower shall contribute to FDU all amounts received as repayments of Sub-loans made under the Project and as repayments for all loans made out of the proceeds of FDU.

(b) Unless the Bank shall otherwise agree, the proceeds of FDU shall be used by the Borrower exclusively for the purposes of administering FDU and making Sub-loans and FDU loans to Municipalities, SANEPAR, COHAPAR and other agencies of the Borrower, to finance FDU Investments under PEDU, such FDU loans to be made on terms and conditions, substantially equivalent to those set forth in Schedules 2 and 7 to this Agreement, provided, however, that the Borrower may allocate up to 40% of FDU's prior year's net income (as determined in accordance with consistently maintained appropriate accounting practices) for purposes of making grants as provided in Section 3.03 of this Agreement.

Section 3.09. (a) For purposes of defining their participation in the carrying out of the Project, the Borrower, through FAMEPAR, shall enter into a Participation Agreement, satisfactory to the Bank, with each Municipality, SANEPAR, COHAPAR and any other agency of the Borrower which intends to carry out Sub-projects.

(b) Unless the Bank shall otherwise agree, the Borrower shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving any Participation Agreement or any provision thereof.

Section 3.10. (a) The Borrower shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement, the Participation Agreement and the Financial Agency Agreement, and other matters relating to the purposes of the Loan.

(b) The Borrower shall promptly inform the Bank 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 (i) by the Borrower or FAMEPAR or a Financial Agent of their obligations under this Agreement, the FAMEPAR Agreement, and under the Financial Agency Agreement, (ii) by the Borrower or the Municipalities or other agencies under the Participation Agreements, and (iii) by FAMEPAR or a specialized or sector agency of the Borrower under the respective Technical Cooperation Agreement.

(c) The Borrower shall inspect, or cause to be inspected, by itself or jointly with representatives of the Bank, the sites, works and constructions included in the Sub-projects and any relevant records and documents.

Section 3.11. Unless the Bank shall otherwise agree, the Borrower shall not abrogate or change or fail to apply the FDU Manual or the Manual or any provision thereof that, in the Bank's reasonable opinion, shall materially or adversely affect the carrying out of the Project or the purposes of the Loan.

Section 3.12. Under the respective Participation Agreement, the Borrower shall cause COHAPAR:

(a) to promote, carry out or assist in the carrying out of Housing Sub-projects and, for such purposes, provide social, legal and technical assistance services to Low Income Families and groups or organizations of Low Income Families;

(b) to make Housing Loans to low income families under arrangements and terms and conditions satisfactory to the Bank, including those set forth in Schedule 2 to this Agreement; and

(c) to exchange view with the Bank and the Borrower, not later than September 30, 1991, on the execution of Housing Sub-projects, the adequacy of Housing Loans, their benefits and main problems and the adequacy of the amounts allocated to such Sub-projects and loans under the Project.

Section 3.13. For purposes of, and without limitation to the provisions of, Section 3.04 of this Agreement, the Borrower shall, not later than September 30, 1989, prepare and furnish to the Bank, a set of financial, economic, technical, environmental and social monitoring indicators for the Project and the Sub-borrowers, satisfactory to the Bank.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of FDU and in respect of the Project of the departments or agencies of the Borrower (including FAMEPAR and COHAPAR) 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, including those for FDU and 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 events are specified, provided, however, that if the events referred to in paragraphs (e) and (f) of this Section shall have occurred and be continuing and relate only to SANEPAR, the suspension of the Borrower's right to make withdrawals from the Loan Account may be limited by the Bank to withdrawals in respect of Project expenditures incurred or to be incurred in respect of Sub-projects carried out or to be carried out by SANEPAR or for technical assistance provided to SANEPAR:

(a) A Financial Agent shall have failed to perform any of its obligations set forth or referred to in this Agreement or the Financial Agency Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable

that the Borrower or FAMEPAR or a Financial Agent will be able to perform its obligations set forth or referred to in this Agreement.

(c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of a Financial Agent or FAMEPAR or an Eligible Sub-borrower or FDU or for the suspension of their operations.

(d) Any of the parties to the FAMEPAR Agreement, or a Technical Cooperation Agreement or a Participation Agreement or a Financial Agency Agreement shall have failed to perform any obligation of such party under any such Agreement.

(e) The Tariff Law shall have been repealed or amended, or substituted by any other State or Federal Law, to an extent which, in the reasonable opinion of the Bank, shall adversely affect the financial condition or the operations of, or the adjustment of the rates for water supply or sewerage services by, SANEPAR.

(f) SANEPAR shall have failed to perform any of its obligations under the Project Agreement.

(g) The FDU law or the FDU Regulation shall have been repealed or amended to an extent which, in the Bank's opinion, shall adversely affect the financial condition or operations of FDU or the carrying out of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, that:

(a) the events specified in paragraphs (a) or (d) and (e) or (f) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (c) or (g) of Section 5.01 of this Agreement shall occur.

## 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 that:

(a) the Loan Agreement has been registered by the Central Bank;

(b) the FAMEPAR Agreement has been executed on behalf of the Borrower and FAMEPAR;

(c) a Financial Agency Agreement has been executed on behalf of the Borrower and BANESTADO;

(d) the PCU has been established; and

(e) a Participation Agreement has been executed on behalf of the Borrower and SANEPAR.

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 with the Central Bank;

(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 in order to authorize the carrying out of the Project and to enable the Guarantor, the Borrower, FAMEPAR and the Financial Agent to perform all of the respective covenants, agreements and obligations of the Guarantor, the Borrower and the Financial Agent contained in the Guarantee Agreement and the Loan Agreement, respectively;

(c) that a Participation Agreement has been duly authorized or ratified by the Borrower and SANEPAR and is legally binding upon the Borrower and SANEPAR in accordance with its terms;

(d) that the FAMEPAR Agreement has been duly authorized or ratified by the Borrower and FAMEPAR and is legally binding upon the Borrower and FAMEPAR in accordance with its terms;

(e) that the Financial Agency Agreement has been duly authorized or ratified by the Borrower and BANESTADO and is legally binding upon the Borrower and BANESTADO in accordance with its terms; and

(f) that the Project Agreement has been duly authorized or ratified by SANEPAR and is legally binding upon SANEPAR in accordance with its terms.

Section 6.03. The date October 17, 1989, 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 Governor of the Borrower 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:

440098 (ITT),  
248423 (RCA) or  
64145 (WUI)

For the Borrower:

Governo do Estado do Parana  
Palacio Iguacu  
Centro Civico  
80.000 - Curitiba -Parana  
Brasil

Cable address:

Secretaria da Fazenda  
Curitiba  
Brasil

Telex:

416007

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/ S. Shahid Husain

Regional Vice President  
Latin America and the Caribbean

STATE OF PARANA

By /s/ Alvaro Fernandes Dias

Authorized Representative

SCHEDULE 1

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each April 1 and October 1	
beginning October 1, 1994 through April 1, 2004	5,000,000

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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 eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

#### SCHEDULE 2

##### Financial Terms for Sub-loans

1. The finance terms applicable to Sub-loans under the Project shall be the following:

Type of Sub-project	Amount of Financing (% of Investment cost)	Maximum Repayment (Years) Period	Maximum Grace (Years) Period
Water Supply	75%	10 to 15	1
Sewerage	75%	10 to 15	1
Solid Waste	75%	10	1
Toxic Waste Treatment	45%	10	1
Slaughter Houses	75%	10	1
Markets	75%	10	1
Transport Terminals	75%	10	1
Housing	60%	15	-
Community Facilities	45%	10	1
Road paving/ sidewalk	75%	5	1
Drainage	75%	5	1
Erosion Control	45%	5	1
Street Lighting	75%	5	1

2. Sub-loans for water production and sewerage treatment Sub-projects may be made with repayment periods exceeding 10 years but not greater than 15 years, provided that the total cost of such Sub-projects does not exceed in the aggregate \$14,000,000 equivalent.

3. A variable annual interest rate equal to the interest rate referred to in Section 2.05 of this Agreement plus at least 3 percentage points shall be applicable to the adjusted principal amount of each Sub-loan.

4. The principal amount of each Sub-loan shall be adjusted every month in accordance with the prevailing rate of inflation as measured by the Índice Geral de

Precos ao Consumidor (IPC) issued by the Fundacao Instituto Brasileiro de Geografia e Estatistica (IBGE), or any other adjustment index satisfactory to the Bank.

Not later than October 31 of each year, the Borrower shall exchange views with the Bank and the Guarantor on the adequacy of the financial terms for Sub-loans in view of the prevailing interest rates for similar loans, the rate of inflation (as measured by the IPC) and the Borrower's cost of funds.

### SCHEDULE 3

#### Additional Obligations of the Borrower and Obligations of The Financial Agents and Eligible Sub-borrowers

##### A. Additional Obligations of the Borrower

(1) The Borrower, acting through PCU or FAMEPAR, shall ensure that the Eligible Sub-borrowers, with the assistance of specialized or sector agencies of the Borrower, as needed, prepare and execute Sub-projects in accordance with the guidelines set forth in the Manual.

(2) The Borrower shall take, or cause its agencies and instrumentalities to take, all such action as shall be required to assist the Eligible Sub-borrowers in the performance of the obligations of such Eligible Sub-borrowers set forth in this Schedule.

##### B. Obligations of the Financial Agent

(1) The Financial Agents shall act as financial agents for the Borrower and, as such, make available the proceeds of the Loan to Eligible Sub-borrowers by entering into Sub-loan Agreements with each Eligible Sub-borrower in a manner consistent with the provisions of this Agreement, and on the terms and conditions established in the Manual, which shall include, those set forth in Schedule 2 to this Agreement.

(2) The proceeds of the merchandise transfer tax (Imposto sobre Circulacao de Mercadorias e Servicos) collected by the Borrower and due to the Eligible Municipalities shall be used as collateral for the respective Sub-loans, in accordance with local practice. The Financial Agents shall obtain guarantees, satisfactory to the Bank, from Sub-borrowers other than Municipalities.

(3) The Financial Agent shall verify the borrowing limits of each Eligible Sub-borrower for the purpose of entering into a Sub-loan Agreement in accordance with paragraph (d) of Schedule 4 to this Agreement, process the Sub-loans for Eligible Sub-projects and disburse the proceeds of the Sub-loans in a manner consistent with the provisions of this Agreement and the Manual.

(4) The Borrower, through the Financial Agent, shall take all necessary action and exercise all of its rights in the Sub-loan Agreement provided, including suspension or termination of the right of the Eligible Sub-borrowers to use the proceeds of the Sub-loans upon failure by any Eligible Sub-borrower to perform any of its obligations under the respective Sub-loan Agreement.

(5) The Financial Agent shall retain the merchandise transfer tax (Imposto sobre Circulacao de Mercadorias e Servicos) due to the Municipality by the Borrower as collateral for the corresponding Sub-loans.

##### C. Obligations of the Eligible Sub-borrowers

(1) The Eligible Sub-borrowers shall carry out their FAP and each Sub-project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, engineering and public utility practices.

(2) The Eligible Sub-borrowers shall include an adequate price contingency in the cost of Sub-projects and provide a timetable for the carrying out of each Sub-project, as provided in the Manual.

(3) (a) Each Eligible Sub-borrower shall, with respect to each Sub-project to be



carried out by each such Eligible Sub-borrower, undertake to ensure, or make adequate provision for the insurance of goods to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by such Eligible Sub-borrower to replace or repair such goods.

(b) Except as the Borrower and the Bank shall otherwise agree, each Eligible Sub-borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for Eligible Sub-projects being carried out by each such Eligible Sub-borrower.

(4) (a) Each Eligible Sub-borrower shall, with respect to each Eligible Sub-project being carried out by each such Eligible Sub-borrower, maintain records and procedures adequate to record and monitor the progress of each such Eligible Sub-project (including the cost and the benefits to be derived from each such Eligible Sub-project), to identify the goods and services financed out of the proceeds of each Eligible Sub-project.

(b) Each Eligible Sub-borrower shall enable the authorized representatives of the Bank and the Borrower to visit the facilities and construction sites included in each Eligible Sub-Project and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents in respect of each Eligible Sub-project.

(5) Each Eligible Sub-borrower shall furnish to the Borrower, all such information as the Borrower shall reasonably request concerning each Eligible Sub-project carried out or being carried out by it, its cost and, where appropriate, the benefits and results to be derived from it, the expenditures of the proceeds of the Loan, the procurement of the goods, works and services financed out of such proceeds, and the monitoring indicators, such information to be prepared in accordance with the information system described in the Manual and containing all such information as the Borrower shall reasonably request on the foregoing.

(6) Promptly after completion of the Project, but in any event not later than three months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, each Eligible Sub-borrower shall prepare a report satisfactory to the Bank and the Borrower on the execution of the Sub-projects carried out by each Eligible Sub-borrower.

(7) Each Sub-borrower shall select and furnish to the Borrower for approval Sub-projects consistent with the criteria set forth in the Manual and shall ensure that such criteria are being consistently applied by each such Sub-borrower in the carrying out of each Sub-project.

(8) The Eligible Sub-borrowers shall procure the goods, works and services to be financed out of the proceeds of the respective Sub-loans as provided in Schedule 4 to this Agreement.

(9) The Eligible Sub-borrowers shall take or cause to be taken all such action as shall be necessary to acquire, as and when needed, all such land and rights in respect of land as shall be required for the carrying out of each Sub-project.

(10) The Eligible Sub-borrowers shall: (i) efficiently operate and adequately maintain the facilities included in the respective Sub-projects, all in accordance with appropriate economic, management, technical and engineering practices; and (ii) provide such facilities with staff in adequate numbers under the supervision of qualified and experienced management.

(11) Each Eligible Municipality shall authorize the Financial Agent to retain the merchandise transfer tax (Imposto sobre Circulacao de Mercadorias e Servicos) due to the Municipalities by the Borrower as collateral for the corresponding Sub-loans.

#### SCHEDULE 4

#### Criteria for the Selection of Eligible Sub-borrowers

Eligible Sub-borrowers shall be Municipalities, agencies of, and enterprises controlled by, the Borrower which meet the following conditions:

1. (a) have prepared an annual or multiannual Investment Program satisfactory to the Borrower and the Bank;
  - (b) have presented a plan of action (FAP), satisfactory to the Bank and the Borrower, for the improvement of the collection of revenues (including, as and when applicable, betterment and service charges and urban real estate taxes), together with a schedule satisfactory to the Bank and the Borrower for the execution of such plan;
  - (c) have the capacity to use the proposed Sub-loan funds and to maintain the amount and service of its total indebtedness within the borrowing limitations set forth in the Guarantor's legislation; and
  - (d) have entered into a Participation Agreement, satisfactory to the Bank, with the Borrower.
2. Municipalities must be included in the Technical Assistance Program.

#### SCHEDULE 5

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

1. 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).
2. To the extent practicable, contracts for civil works and contracts for goods shall be grouped in bid packages to cost the equivalent of \$1,500,000 or more and \$300,000 or more, respectively.

###### 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:

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:
  - (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 complete goods.
  - (2) 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 other 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 less than the equivalent of \$1,500,000 but more than \$50,000 equivalent and goods estimated to cost less than \$300,000 equivalent but more than \$20,000 equivalent may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank, up to an aggregate amount not to exceed \$65,100,000 equivalent for civil works and \$15,600,000 equivalent for goods, respectively.

2. Contracts for civil works estimated to cost \$50,000 or less equivalent (up to an aggregate amount not to exceed \$52,700,000 equivalent) and contracts for goods estimated to cost \$20,000 or less equivalent (up to an aggregate amount not to exceed \$15,600,000 equivalent) may be procured on the basis of comparison of price quotations solicited from a list of at least three contractors or suppliers, as the case may be, 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 the first three contracts for civil works and the first three contracts for goods to be procured pursuant to Part C.1 of this Schedule and each contract for civil works estimated to cost the equivalent of \$1,500,000 or more and each contract for goods estimated to cost the equivalent of \$300,000 or more, 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, such 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 as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 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. Such contracts shall be retained in accordance with Section 4.01 (b) of this Agreement.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Part E: Other

For purposes of this Schedule and the Guidelines, the term "custom duties and

other import taxes" includes the FSRMM.

## Section II. Employment of Consultants

In order to assist the Borrower and Eligible Sub-borrowers in the execution of the Project, the Borrower shall employ, and cause the Eligible Sub-borrowers 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.

### SCHEDULE 6

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories set forth in Section 2.02 (a) of 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 Section 2.02 of this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 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 made 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; (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 7

##### Additional Eligibility Criteria for Water Supply and Sewerage Sub-projects

I. Sub-projects shall comply with the following conditions:

(a) Each Sub-project must have been included in the Sub-borrower's investment program approved by the Bank.

(b) Sub-projects shall be the least-cost solution.

(c) Water supply Sub-projects to be carried out in cities with populations greater than 50,000 shall have average water rates equal to or higher than 75% of the long-run average incremental cost of providing services through a minimum diameter water connection.

(d) Sewerage Sub-projects, or water supply Sub-projects to be carried out in cities with populations of less than 50,000 shall have average water (or average sewerage) rates equal to or higher than 60% of the long-run average incremental cost of providing services through a minimum diameter connection.

(e) Sub-projects or group of Sub-projects to be carried out in communities with populations of less than 5,000 shall comply with (d) above for each individual community or for the group.

(f) Sub-projects not meeting the criteria set forth herein shall be redesigned to lower acceptable standards or carried out in stages. If the Sub-project does not fulfill the criteria after it has been redesigned, it shall be eligible for Bank financing only if a satisfactory social and economic justification is furnished to the Bank.

(g) Calculations of long-run average incremental costs for Sub-project acceptability and for least-cost analysis, shall use an annual discount rate equal to the opportunity cost of capital (10%) or another value agreed upon between the Borrower and the Bank.

II. For Sub-projects including the construction or expansion of dams, reservoirs or water flow control schemes:

(a) Execution of an environmental impact report acceptable to the Bank and the Borrower.

(b) Execution of relocation studies, including detailed resettlement plans, satisfactory to the Bank and the Borrower.

(c) Execution of safety studies, including specific action plans, satisfactory to the Bank and the Borrower.

(d) Appointment of panel of independent safety and environmental experts, with terms of reference and qualifications and experience satisfactory to the Bank and the Borrower, to be retained until the completion of the Sub-project.

