

CONFORMED COPY

LOAN NUMBER 2895 BR

(Minas Gerais Forestry Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF MINAS GERAIS

Dated September 30, 1988

LOAN NUMBER 2895 BR

LOAN AGREEMENT

AGREEMENT, dated September 30, 1988 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF MINAS GERAIS (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 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;

(C) Part A of the Project will be carried out by Banco de Desenvolvimento de Minas Gerais (BDMG) with the Borrower's assistance and, as part of such assistance,

the Borrower will make available to BDMG part of the proceeds of the Loan as provided in this 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 and in the Project Agreements of even date herewith between the Bank and BDMG;

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this 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) "Project Agreement" means the agreement between the Bank and BDMG 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;

(b) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and BDMG pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement;

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

(d) "Central Bank" means Banco Central do Brasil;

(e) "Cruzado" means the currency of the Guarantor;

(f) "IBDF" means Instituto Brasileiro de Desenvolvimento Florestal, the Brazilian Institute for Forestry Development;

(g) "IEF" means Instituto Estadual de Florestas, the State Forestry Institute;

(h) "Sub-loan" means a loan made or proposed to be made by BDMG or a Participating Bank out of the proceeds of the Loan to an Investment Enterprise for an Investment Project;

(i) "BDMG Loan" means a loan made or proposed to be made by BDMG out of the proceeds of the Loan to a Participating Bank for purposes of financing an Investment Project;

(j) "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 2 (b) of Schedule 1 to the Project Agreement;

(k) "Investment Enterprise" means an enterprise to which the Borrower proposed to make or has made a Sub-loan;

(l) "Investment Project" means a specific forestry development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(m) "BDMG Law" means the Borrower's Law No. 2.607 of January 5, 1962 and "BDMG Charter" means the Borrower's Decree No. 17.115 of April 22, 1975, as amended to the date of this Agreement;

(n) "Statement of Policy" means the statement of lending and investment policy approved by Resolution No. 001-C of BDMG dated May 19, 1976, as amended to the date of this Agreement; and

(o) "OTN" means Obrigao do Tesouro Nacional - OTN the National Treasury Bonds referred to in Article 6 of the Guarantor's Decree Law No. 2.284, dated March 10, 1986, published in the Diario Oficial of March 11, 1986;

(p) "BDMG Criteria" means the technical, financial and economic criteria applied by BDMG in the financing of forestry activities as provided to the Bank;

(q) "Participating Bank" means any bank or financing entity operating in the territories of the Borrower, which has the qualification of a financial agent and has been approved by the Bank and BDMG for participating in the carrying out of Part A of the Project;

(r) "Participation Agreement" means an agreement entered into, or to be entered into, between BDMG and a Participating Bank for purposes of Part A of the Project;

(s) "Regulation" means the decree to be enacted by the Borrower pursuant to the provisions of Section 6.01 (c) of this Agreement to ensure that SEPLAN-MG will review and respond to requests of IEF or BDMG for reimbursement of eligible expenditures under the Project within three working days, and that all disbursements from the Loan Account or the Special Account are retained for no more than one working day in the Borrower's Treasury before being passed to IEF or BDMG;

(t) "SEPLAN-MG" means Secretariat of Planning and General Coordination for the State of Minas Gerais; and

(u) "FISSET" means Fundo de Investimentos Setoriais, a fund established by the Guarantor for the financing of reforestation, tourism and fisheries investments pursuant to Decree-Law No. 1376 of December 12, 1974, as regulated by Decree-Law No. 2304 of November 21, 1986, Decree No. 93.607 of November 21, 1986 and Decree No. 94.766 of August 11, 1987.

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, an amount in various currencies equivalent to forty eight million five hundred thousand dollars (\$48,500,000).

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 as such schedule may be amended from time to time by agreement between the Borrower and the Bank for: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Sub-loan to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested; and (ii) 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 Parts B through D of the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and thereafter maintain in the Central Bank a Special Account in dollars 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 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1995 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 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

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

Section 2.06. Interest and other charges shall be payable semiannually on March 1 and September 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 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: (i) carry out, through IEF, and under the coordination of its SEPLAN-MG, Parts B, C and D of the Project with due diligence and efficiency and in conformity with appropriate economic, financial and forestry practices, and shall provide, as needed and in a timely manner, the funds, facilities, services and other resources required for the Project, and (ii) cause BDMG to perform in accordance with the provisions of the Project Agreement all the obligations of BDMG therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable BDMG to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 purchase or assign, on an exclusive basis, the vehicles and equipment required for the timely execution of the Project.

(c) The Borrower shall make available the proceeds of the Loan allocated for Part A of the Project to BDMG under a Subsidiary Agreement to be entered into between the Borrower and BDMG, under terms and conditions satisfactory to the Bank, which shall include the following: (i) that the amounts made available to BDMG will be denominated in cruzados and adjusted in accordance with the variations of the OTN value; (ii) (A) that the interest rate to be paid by BDMG on amounts disbursed and outstanding will be the rate specified in Section 2.05 of this Agreement, and (B) that notwithstanding the provisions of subparagraph (ii) (A) above, the interest rate to be paid by BDMG shall not exceed 8% per annum in respect of amounts disbursed before October 2, 1989 and 9% per annum in respect of amounts disbursed thereafter; (iii) the repayment period shall not exceed: (A) 14 years, including a grace period not to exceed 7 years in the case of the funds made available by the State for financing Sub-loans for industrial reforestation, and (B) 4 years, including a grace period not to exceed 1 year in the case of the funds made available by the State for financing

Sub-loans for charcoal infrastructure; (iv) BDMG will not pay any commitment charge on the funds made available to BDMG by the State under this Section; (v) that the Borrower shall participate in the yearly reviews of onlending terms of Sub-loans referred to in paragraph 2 of Schedule 1 to the Project Agreement; and (vi) that the Borrower and BDMG shall, based on the results of such yearly reviews modify the Subsidiary Agreement accordingly.

(d) The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect its interests and those of the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A through D of 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.

Section 3.03. (a) The Bank and the Borrower hereby agree that 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 A of the Project shall be carried out by BDMG pursuant to Section 2.03 of the Project Agreement.

(b) Without limitation to the foregoing and to the reporting and information obligations set forth in the General Conditions, the Borrower, through SEPLAN MG, shall: (i) furnish to the Bank not later than March 31 and September 30 each year, semi-annual reports, of such scope and detail as the Bank shall reasonably request, on the progress of the implementation of the Project; and (ii) no later than June 30 each year, furnish to the Bank an evaluation report, of such scope and detail as the Bank shall reasonably request, including a description of the status of each of the activities included under the Project and an assessment of the benefits and experiences to be derived from them.

(c) The Borrower shall cause the annual evaluation reports referred to in paragraph (b) (ii) of this Section to be prepared by independent consultants with experience, qualifications and terms of reference satisfactory to the Bank.

Section 3.04. The Borrower shall cause IEF to maintain, for purposes of Parts B, C, and D of the Project, an implementation unit with organization, structure and functions satisfactory to the Bank and staffed with personnel in numbers and with qualifications satisfactory to the Bank.

Section 3.05. The Borrower shall maintain in SEPLAN-MG a unit in charge of the overall coordination of the implementation of the Project, with organization, structure and functions satisfactory to the Bank and staffed with personnel in numbers and with qualifications satisfactory to the Bank.

Section 3.06. Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall:

(a) not later than October 31 each year, furnish to the Bank a proposed allocation in its next year budget of counterpart funds required for the timely execution of the Project; and

(b) afford the Bank a reasonable opportunity to comment on such proposed allocation.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, and cause IEF to maintain, separate records and 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) cause such records and accounts and the records and accounts for the Special Account for each fiscal year to be 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: (A) certified copies of the accounts for such year as so audited and (B) 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 as well as 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 or cause to be retained, 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:

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

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that BDMG will be able to perform its obligations under the Project Agreement.

(c) The BDMG Law or the BDMG Charter or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of BDMG or its ability to carry out Part A of the Project or to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment, or for the suspension of operations, of BDMG or a Participating Bank.

(e) That 45 days shall have elapsed from the date the Bank notifies the

Borrower and BDMG of its disagreement to the onlending terms proposed by the Borrower and BDMG during the review referred to in paragraph 2 of Schedule 1 to the Project Agreement and no subsequent agreement has been reached on on-lending such terms.

(f) A Participating Bank shall have failed to perform any of its obligations under a Participation Agreement provided, however, that if this event shall have occurred and be continuing, the suspension of the Borrower's right to make withdrawals from the Loan Account may be limited to the amounts relented to the Participating Bank concerned by such event.

(g) The Regulation has been amended, or applied in a way that, in the Bank's reasonable opinion, it shall have failed to meet its objectives.

(h) The BDMG criteria have been amended to an extent that, in the Bank's reasonable opinion, they shall have failed to provide an adequate basis for evaluating Investment Projects.

(i) The Borrower's Resolution No. 4279/87 as amended by Resolution No. 4377 of October 2, 1987 shall have been revoked, annulled or repealed and shall have not been substituted by another valid and enforceable instrument providing for such authorization.

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

(a) any event specified in paragraphs (a) or (e) or (f) or (g) or (h) or (i) 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 BDMG; and

(b) any event specified in paragraphs (c) or (d) 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 Subsidiary Agreement has been entered into between the Borrower and BDMG;

(b) the Borrower shall have allocated in its 1988 budget an aggregate amount of \$2,000,000 equivalent as its counterpart funds for Parts B through D of the Project; and

(c) the Regulation has been enacted.

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 Project Agreement has been duly authorized or ratified by BDMG, and is legally binding upon BDMG in accordance with its terms;

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

(c) that the Regulation has been duly enacted, it is in full force and effect and is binding on the Borrower's Treasury.

Section 6.03. The date December 29, 1988 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 Secretary of Planning and General Coordination 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:

Secretaria de Planejamento e Coordenação Geral
Rua Bernardo Guimarães 2731
Belo Horizonte, Minas Gerais
30140 Brazil

Telex:

318211
SEPLAN-MG

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/ Everardo Wessels

Regional Vice President
Latin America and the Caribbean

STATE OF MINAS GERAIS

By /s/ Alipio Pires Castello Branco

Authorized Representative

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) Sub-loans for Part A of the Project	36,800,000	100% of the amount disbursed
(2) Goods (other than vehicles and micro-computers) for Parts B through D of the Project	1,400,000	100% of foreign expenditures and 50% of local expenditures
(3) Project Admini- stration and Training for Parts B through D of the Project	5,200,000	(a) 60% until the aggregate amount of disbursements under this Cate- gory reaches the equivalent of \$3,500,000; and (b) 30% there- after, until such aggregate amount reaches the equivalent of \$5,000,000; and (c) 10% thereafter
(4) Consultants' Services for Parts B through D of the Project	200,000	100% of foreign expenditures and 50% of local expenditures
(5) Civil works for Parts B through D of the Project	100,000	50%
(6) Unallocated	4,800,000	
TOTAL	48,500,000	

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:

(a) in respect of any Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to the Project Agreement;

(b) in respect of a Sub-loan made by a Participating Bank, unless the Bank has received evidence satisfactory to the Bank that such Participating Bank has entered into a Participating Agreement with BDMG and that such Participation Agreement is in full force and effect and binding on the parties thereto in

accordance with its terms; and

(c) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$1,000,000, may be made on account of payments made for expenditures under Parts B through D of the Project before that date but after June 1, 1987.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to increase industrial wood production and rural employment in the State; (ii) to reduce degradation of native forests, and improve environmental protection in the State; and (iii) to strengthen the management capabilities of IEF.

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

Part A: Credit

The financing, through Sub-loans to Investment Enterprises, of the establishment of about 165,000 hectares of forest plantations for industrial purposes, in particular for charcoal production, and of charcoal kilns and associated equipment and infrastructure.

Part B: Small-scale Reforestation Program

1. A program to attain the planting of about 34,000 hectares of eucalyptus woodlots for charcoal, pulpwood, pole and post production on small- and medium-sized farms, through the provision of seedlings, fertilizer, formicide and extension services to farmers.
2. Establishment of woodlots of about 7,320 hectares of native tree species through the provision of seedlings, fertilizer, formicide and extension services to farmers.

Part C: Forestry Conservation

1. A Control of Forest Harvesting program including:
 - (a) Monitoring of forest harvesting through the preparation of a state forest inventory and vegetation maps, and the establishment of a computerized data bank, including therein information on vegetation types, their location and areas, volumes of timber and per hectare wood production.
 - (b) Development of native forest management techniques for energy production including: (i) provision of technical staff for IEF to install and manage experimental plots to determine fuel wood and charcoal yields in the State using different resource management techniques; and (ii) establishment of a central coordinating group of IEF to evaluate the data obtained from such experiments.
 - (c) Creation of a fire prevention and control service including: (i) the staffing and equipping of a state center and regional operational centers for forest fire prevention and control; (ii) the construction of six fire towers in the State of Minas Gerais; and (iii) the provision of consultant services to train IEF staff in forest fire prevention and control techniques.
 - (d) Development of charcoal manufacturing technology, including: (i) the training of IEF field staff in construction and charcoaling techniques; and (ii) the preparation of manuals and audio visual extension materials for training small producers in the new charcoaling techniques.
2. Education on Forestry Conservation
 - (a) Training of IEF staff in forestry conservation and the implementation of

a communication campaign for education of the general public in forestry conservation.

(b) Staffing, equipping, training and providing of extension materials for IEF's educational centers.

3. Development of Parks and Reserves

(a) Improvement of infrastructure and staffing of State parks.

(b) Establishment of a Planning Unit for State urban areas to assist municipalities in planning and establishing parks and recreational areas.

(c) Carrying out ecological research projects including studies of animals threatened with extinction and biological inventories of parks and reserves.

Part D: Institutional Development of IEF

1. Provision of technical assistance and training to IEF staff to overcome their skill deficiencies.

2. Monitoring of Project activities.

* * *

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 1 and September 1 beginning September 1, 1991 through September 1, 2002	2,020,000
On March 1, 2003	2,040,000

* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
percentage outstanding multiplied	The interest rate (expressed as a per annum) applicable to the balance on the Loan on the day of prepayment 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 before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A:

1. Local competitive bidding: Except as provided in paragraph A.2 and A.3 hereof, civil works and goods shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Shopping: Goods estimated not to exceed the equivalent of \$20,000 per contract, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Sub-loans

Contracts for goods and services to be financed out of the proceeds of Sub-loans shall be procured at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor and in the case of services, of their quality and the competence of the parties rendering them.

Part B: 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 five contracts for Parts B through D of the Project to be financed out of the proceeds of the Loan and thereafter, each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. 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) of such Appendix 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 contracts 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 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.

(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 (c) (ii) of this Agreement.

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

Section II. Employment of Consultants

In order to assist the Borrower in carrying out 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 "Category" means a category of items to be financed out of the proceeds of the Loan as 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 Categories (1) through (5) in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount of \$2,500,000 (or such other amount as the Bank may agree, at the request of and by notice to the Borrower, according to the disbursement requirements of the Project) to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 the Bank that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) After the Effective Date, the Bank may, on behalf of the Borrower,

withdraw from the Loan Account and deposit into the Special Account the Authorized Allocation.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. Each such deposit shall be withdrawn by the Bank from the Loan Account under the respective Categories (1) through (5), and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, any request for any further deposit into the Special Account may be denied by the Bank when either of the following situations arises:

(i) the Bank shall have determined that all further withdrawals should be made directly by the Borrower from the Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement; or

(ii) when the total unwithdrawn amount of the Loan allocated to Categories (1) through (5) for the Project, minus the amount of any outstanding qualified agreement to reimburse made by the Bank and 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 be equal to, unless otherwise agreed by the Bank, the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawals from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to Categories (1) through (5) 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 have been or 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, 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 otherwise agreed by the Bank, no further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account and immediate cancellation.

