

CONFORMED COPY

LOAN NUMBER 7037-BR

Loan Agreement

(Land-Based Poverty Alleviation Project I)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 16, 2001

LOAN NUMBER 7037-BR

LOAN AGREEMENT

AGREEMENT, dated July 16, 2001, between FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has been providing support for the Borrower's Land Reform and Poverty Alleviation Pilot Project in connection with the loan agreement (4147-BR) between the Borrower and the Bank dated July 29, 1997;

WHEREAS (B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; 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 for Fixed-Spread Loans" of the Bank dated September 1, 1999 (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) "Annual Operating Plan" means each plan referred to in Section 3.09 (d) of this Agreement;

(b) "Banco Central" means Banco Central do Brasil, the Borrower's Central Bank;

(c) "Beneficiary" means any civil association (associação civil) duly established in the Borrower's territory in accordance with the Borrower's laws, which: (i) has been selected to carry out a Community Subproject or Community Subprojects (as hereinafter defined) in accordance with the selection criteria prescribed in the Operational Manual (as hereinafter defined); and (ii) has obtained a Land Loan (as hereinafter defined) to purchase the necessary land for the carrying out of a Community Subproject or Community Subprojects;

(d) "Community Subproject" means any investment referred to in Part B of the Project to be carried out by a Beneficiary utilizing the proceeds of a Grant (as hereinafter defined) and which meets the eligibility criteria set forth in the Operational Manual;

(e) "CSFAs" means Community Subproject Financial Agents, the financial institutions referred to in Section 3.05 (b) of this Agreement, appointed by the Borrower, through MDA (as hereinafter defined), to act as the Borrower's financial agents in respect of Part B of the Project;

(f) "CSFA Agreements" means any of the agreements referred to in Section 3.05 (b) of this Agreement;

(g) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in said Interest Period;

(h) "Eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(i) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(j) "Grant" means a grant to be made or proposed to be made by the Borrower to a Beneficiary out of the proceeds of the Loan for the purposes of partially financing the cost of a Community Subproject;

(k) "Grant Agreement" means each of the agreements, to be entered into among the CSFA, a Participating State (as hereinafter defined) and a Beneficiary, for the provision of a Grant;

(l) "Land Loans" means the loans referred to in Section 3.05 (a) (i) of this Agreement;

(m) "Land Loan Agreement" means each of the agreements, to be entered into between the LLFA (as hereinafter defined) and a Beneficiary, for the provision of a Land Loan;

(n) "LLFAs" means the Land Loan Financial Agents, the financial institutions referred to in Section 3.05 (a) of this Agreement, appointed by the Borrower, through MDA, to act as the Borrower's financial agents in respect of Part A of the Project;

(o) "LLFA Agreements" means any of the agreements referred to in Section 3.05 (a) of this Agreement;

(p) "Maturity Fixing Date" means, for each Disbursed Amount, the date on which the amortization schedule for said Disbursed Amount is established, such date being the first day of the Interest Period next following the Interest Period in which said Disbursed Amount is withdrawn;

(q) "MDA" means Ministério do Desenvolvimento Agrário, the Borrower's Ministry of Agrarian Development, the Project's overall executing agency;

(r) "MIS" means the Monitoring and Information System referred to in Section

3.08 of this Agreement;

(s) "NTU" means National Technical Unit, the Borrower's Project coordinating unit referred to in Section 3.10 of this Agreement;

(t) "Operational Manual" means the manual and its respective technical annexes for the operation of the Project referred to in Section 3.03 of this Agreement;

(u) "Participating State" means the each of the following States: Alagoas, Bahia, Ceará, Espírito Santo, Maranhão, Minas Gerais, Paraíba, Paraná, Pernambuco, Piauí, Rio Grande do Norte, Rio Grande do Sul, Santa Catarina and Sergipe which has entered into a Participation Arrangement (as hereinafter defined) not later than twelve months after the Effective Date; and the term "Participating States" means all such States collectively;

(v) "Participation Arrangements" means any of the arrangements referred to in Section 3.05 (c) of this Agreement;

(w) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(x) "Project Monitoring Letter" means the letter dated June 27, 2000 from the Borrower's Minister of Agrarian Development to the Bank with respect to the timetable and monitoring indicators for the Project;

(y) "PRONAF" means Programa Nacional de Fortalecimento da Agricultura Familiar, the Borrower's National Program for the Strengthening of Family Agriculture established pursuant to the Borrower's Decree 1,946 of June 28, 1996, as amended;

(z) "State" means the Borrower's political subdivision as referred to in the Borrower's Constitution; and the term "States" means collectively all such subdivisions;

(aa) "State Annual Operating Plan" means any of the plans referred to in the relevant provision of the Participation Arrangements;

(bb) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(cc) "STU" means the State Technical Coordination Unit referred to in the relevant provision of the Participation Arrangements.

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 this Agreement, an amount equal to two hundred eighteen million one hundred ninety thousand Euro (EUR218,190,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan, the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be September 30, 2004 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to two million one hundred eighty one thousand nine hundred Euro (EUR2,181,900). The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period, at the Variable Rate; provided that, upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on June 15 and December 15 in each year.

Section 2.08. (a) Subject to the provisions of paragraph (b) of this Section, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each June 15 and December 15, the first such installment to be payable on the eleventh (11th) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount and the last such installment to be payable on the twenty first (21st) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount. Each installment except for the last one shall be equal to one-eleventh (1/11) of said Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of said Disbursed Amount.

(b) Notwithstanding the provisions of paragraph (a) of this Section, if any one or more installments of principal of any Disbursed Amount would, pursuant to the provisions of such paragraph (a), be payable after June 15, 2014, the Borrower shall also pay on such date the aggregate amount of all such installments.

(c) The Bank shall notify the Borrower of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for said Disbursed Amount.

(d) Notwithstanding the provisions of paragraphs (a) through (c) of this Section, in the event of a Currency Conversion of all or any portion of a Disbursed Amount to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of

Schedule 1 to this Agreement.

Section 2.10. The Minister of Agrarian Development of the Borrower, and the person or persons designated in writing by such Minister, are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall, through MDA: (a) carry out Parts A, B, C and D of the Project with the participation of the Participating States; and (b) carry out Part E of the Project; all with due diligence and efficiency and appropriate administrative, financial, environmental and land management practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project.

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 3 to this Agreement.

Section 3.03. The Borrower, through MDA, shall carry out the Project, or cause the Project to be carried out, in accordance with an operational manual satisfactory to the Bank (the Operational Manual), describing the priority areas to benefit from Project activities, and containing, inter alia, the overall operating procedures for the execution of the Project, including: (a) the operating procedures for regulating the acquisition of land under Part A of the Project, including the financial terms and conditions for the repayment of such land; (b) the procedures and criteria related to training, technical assistance, environmental protection and other activities to be carried out under the Project; (c) the criteria and procedures for the selection, and the procedures for the carrying out, of the Community Subprojects; and (d) the standard form of a Grant Agreement. In case of any conflict between the provisions of the Operational Manual and those of this Agreement, the provisions of this Agreement shall prevail.

Section 3.04. For the purposes of ensuring sufficient provision of funds for Part A of the Project, but without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower, through MDA, shall, by not later than March 31 of each calendar year of Project implementation, submit evidence satisfactory to the Bank that an amount of not less than \$50,000,000 equivalent, up to an aggregate amount of \$200,000,000 equivalent, has been committed and is available for the purposes of financing such Part of the Project.

Section 3.05. The Borrower, through MDA, shall:

(a) Enter into agreements, satisfactory to the Bank (the LLFA Agreements), with financial institutions acceptable to the Bank (the LLFAs), such agreements to provide, inter alia, that the LLFAs shall:

- (i) serve as the financial agents of the Borrower, through MDA, for purposes of making loans (the Land Loans) to Beneficiaries under Part A of the Project;
- (ii) enter into loan agreements with each Beneficiary (the Land Loan Agreements) providing for Land Loans only upon receiving the relevant STU's concurrence as provided in the relevant provision of the respective Participation Arrangement, such Land Loan Agreements to have terms and conditions satisfactory to the Bank, including, inter alia, provisions entitling LLFA to suspend or terminate the right of the Beneficiary to use the proceeds of the Land Loan upon failure by such Beneficiary to perform any of its obligations under the Land Loan Agreement;
- (iii) not assign, amend, abrogate, waive or fail to enforce the Land Loan Agreements or any provision thereof; and

(iv) enter into each of the Participation Arrangements pursuant to paragraph (c) of this Section.

(b) Enter into agreements satisfactory to the Bank (the CSFA Agreements), with financial institutions acceptable to the Bank (the CSFAs), such agreements to provide, inter alia, that the CSFAs shall:

(i) serve as the financial agents of the Borrower for purposes of making grants (the Grants) to Beneficiaries under Part B of the Project out of the proceeds of the Loan;

(ii) upon approval of the STU, enter into a grant agreement with each of the Beneficiaries (the Grant Agreement) to finance up to ninety percent (90%) of the costs of a Community Subproject which shall be carried out by the Beneficiary, such Grant Agreement to have the terms and conditions set forth in the standard form included in the Operational Manual;

(iii) not assign, amend, abrogate, waive or fail to enforce the Grant Agreements or any provision thereof;

(iv) (A) whenever a Community Subproject requires under the provisions of the Operational Manual the undertaking of environmental protection measures: submit to MDA for the approval of MDA and the Bank the corresponding environmental assessment, as such assessment shall have been prepared in accordance with terms of reference satisfactory to the Bank; and (B) whenever a Community Subproject requires the undertaking of environmental protection measures pursuant to the preceding subparagraph, cause the Beneficiary to carry out the mitigation measures provided in the corresponding environmental assessment in a manner and within a timetable satisfactory to the Bank; and

(v) enter into each of the Participation Arrangements pursuant to paragraph (c) of this Section.

(c) Enter into arrangements, satisfactory to the Bank, with each Participating State, CSFA and LLFA (the Participation Arrangements) for the purposes of:

(i) providing for the relationship and collaboration between each Participating State, CSFA, and LLFA in respect of the carrying out of Parts A, B, C and D of the Project, respectively, as provided, inter alia, in Schedule 4 to this Agreement and in the Operational Manual; and

(ii) making available, to each Participating State the proceeds of the Loan required for the carrying out of such Participating State's activities under Parts B, C and D of the Project.

(d) Promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the carrying out of its obligations under the Participation Arrangements or the accomplishment of its objectives.

Section 3.06. The Borrower shall exercise its rights and comply with its obligations under the LLFA Agreements, the CSFA Agreements and the Participation Arrangements in such a manner as to protect the interests of the Borrower and the Bank, and, except as the Bank shall otherwise agree, the Borrower shall not amend, suspend, abrogate, waive or fail to enforce any such agreements (or arrangements, as the case may be), or any provision thereof.

Section 3.07. The Borrower, through MDA, shall take the necessary measures in order to ensure that Beneficiaries, in respect of PRONAF have access to it on the same terms and conditions extended to other PRONAF participants.

Section 3.08. The Borrower, through MDA, shall put into effect a monitoring and information system (the MIS), satisfactory to the Bank, to provide information on Project implementation, which shall include, inter alia, the information required to verify the Project's implementation performance in relation to the indicators set forth in the Project Monitoring Letter, and any report required to be prepared under the Project.

Section 3.09. Without limitation upon the provisions of Sections 9.01 (a) and 9.07 of the General Conditions, the Borrower, through MDA, shall:

(a) In the month of October during each year of Project implementation, beginning in October of the year 2001, prepare on the basis of the MIS and furnish to the Bank an annual report on the progress in the implementation of the Project, such report to: (i) take into consideration the benchmarks set forth in the Project Monitoring Letter; (ii) include an assessment carried out, under terms of reference satisfactory to the Bank, on whether the procurement of goods and works, and the employment of consultants required under Community Subprojects were carried out in accordance with the provisions of Schedule 3 to this Agreement; (iii) include the progress reports received from the Participating States; and (iv) be of such scope and in such detail as the Bank shall reasonably request;

(b) In the month of November during each year of Project implementation, beginning in November of the year 2001, hold an annual review jointly with the Bank (except as provided in paragraph (c) of this Section), such review to be based on the report referred to in paragraph (a) above and, thereafter, take or cause to be taken all such action which shall have been agreed upon by the Borrower, through MDA, and the Bank, during the review referred to in this paragraph, as necessary for the efficient execution of the Project or the achievement of its objectives, such action to be taken in the manner and within the timetable agreed upon during such review;

(c) In the month of March of the year 2003, or when an amount of the Loan equivalent to 50% (fifty percent) thereof shall have been disbursed by the Borrower to pay for expenditures under the Project, whichever comes earlier, review (the mid-term review), the reports issued pursuant to (a) of this Section and the progress achieved in the implementation of Project, such progress to be measured against the benchmarks set forth in the Project Monitoring Letter and, thereafter, take or cause to be taken all such action which shall have been agreed upon by the Borrower and the Bank, during the review referred to in this paragraph, as necessary for the efficient execution of the Project or the achievement of its objectives, such action to be taken in the manner and within the timetable agreed upon during such review; and

(d) In the month of November of each year during Project implementation, except for the first year, furnish to the Bank an annual plan satisfactory to the Bank (the Annual Operating Plan), describing, inter alia, the Project activities (including Community Subprojects) to be carried out during the next calendar year, including the cost thereof, and consolidating the State Annual Operating Plans, and, thereafter, carry out the Project in accordance with the terms of such Annual Operating Plan and this Agreement.

Section 3.10. The Borrower, through MDA, shall establish, and thereafter maintain, during Project implementation, a Project coordinating unit (the NTU) with staff in adequate numbers and with adequate qualifications, and with responsibilities, structure and functions satisfactory to the Bank.

Section 3.11. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower, through MDA, shall, with the assistance of the Participating States:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the

Special Account audited for each fiscal year in accordance with auditing standards acceptable to the Bank, 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 financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may 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 Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than one year after the Effective Date, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) that the CSFA Agreements and the LLFA Agreements have become effective;
- (b) that at least three Participation Arrangements with Participating States have been entered into among the parties thereto and each relevant STU has been established;
- (c) that evidence has been submitted to the Bank that an amount of not less than \$12,000,000 equivalent has been committed and is available for the purposes of the initial financing of Part A of the Project;
- (d) that the NTU has been established;
- (e) that the Operational Manual has been adopted by MDA and by the same Participating States as referred to in paragraph (b) above;
- (f) that the Annual Operating Plan for the first year of Project implementation has been approved by the Bank; and
- (g) that the MIS has been adopted by MDA and by the same Participating States as referred to in paragraph (b) above.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion to be furnished to the Bank, namely, that the Loan has been registered by Banco Central.

Section 5.03. The date October 16, 2001 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministério da Fazenda
Procuradoria-Geral da Fazenda Nacional
Esplanada dos Ministérios - Bloco "P" - 8º andar
70048-900, Brasília, D.F.
Brazil

Facsimile:

(55-61) 412-1740

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

Telex:

248423 (MCI) or

Facsimile:

(202) 477-6391

Washington, D.C.

64145 (MCI)

With copies to:

Ministério do Planejamento e Orçamento
Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco "K" - 5º andar
70040-906, Brasília, D.F.
Brazil

Ministério do Desenvolvimento Agrário
Esplanada dos Ministérios, Bloco "A" - 8º andar
70054-090, Brasília, D.F.
Brazil

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.

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Rubens Antônio Barbosa

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ David de Ferranti

Regional Vice President
Latin America and the Caribbean

HONORARY WITNESS

By /s/ Raul Belens Jungmann Pinto
Minister of Agrarian Development

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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 Euro)	% of Expenditures to be Financed
(1) Grants under Part B of the Project the respective Community	184,660,000	90% of the cost of Subproject
(2) Consultants' Services and publicity and training expenditures under Parts C and D of the Project	12,640,000	100%

(3)	Consultants' Services under Part E of the Project	8,000,000	100%	
(4)	Administrative Costs:			
	(a) incremental costs	3,240,000	20%	
	(b) Project supervision costs	4,760,000	50%	
(5)	Fee	2,181,900	Amount due under Section 2.04 of this Agreement	
(6)	Premia for Interest Rate Caps and Interest Rate Collars	- 0 -	Amount due under Section 2.09 (c) of this Agreement	
(7)	Unallocated	2,708,100		
	TOTAL	218,190,000		

2. For the purposes of this Schedule:

(a) the term "incremental costs" means costs incurred by each STU in connection with the carrying out of its respective activities under the Project, such as land title verification, environmental analyses of Community Subprojects, computer services and office equipment; and

(b) the term Project supervision costs means those costs incurred by each STU in connection with the field supervision of Community Subprojects, such as travel expenses and per diems.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding EUR650,000 may be made in respect of Categories (2) and (3) of the table set forth in paragraph 1 above on account of payments made for expenditures made before that date but after July 1, 2000 a date which is latter than or a date twelve months before the date of this Agreement, whichever is later;

(b) payments for expenditures for an activity in a State unless such State has entered into a Participation Arrangement;

(c) payments under a Grant unless the respective Grant Agreement shall have been entered into between the parties thereto; and

(d) unless the Bank shall otherwise agree, payments under a Grant for a Community Subproject estimated to cost more than the equivalent of \$50,000.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods and works costing less than the equivalent of \$100,000 each; (b) services of individual consultants costing less than the equivalent of \$50,000; and (c) services of consulting firms costing less than the equivalent \$100,000; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Euro in a commercial bank a special deposit account on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into said Special Account shall be made as follows:

(a) until the Bank shall have received (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement and (ii) a request from the

Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means an amount equivalent to EUR20,500,000 to be withdrawn from the Loan Account and deposited into the Special

Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to EUR13,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of EUR39,000,000.

2. 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 deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, 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 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.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account other than that in respect of the fee referred to in Section 2.04 of this Agreement shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of EUR48,600,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) the reduction of rural poverty by providing the Participating States' rural poor with access to land and funds for other investments; and (b) the gathering and evaluation of experience derived from Project implementation.

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: Land Acquisition

Provision of loans for land acquisition by the Beneficiaries for the carrying out of Community Subprojects.

Part B: Community Subprojects

Financing of small scale and pilot community investments, including technical assistance, consisting, inter alia, of: (a) infrastructure investments such as rural water supply, electrification, local road improvements and construction of small bridges; (b) social investments such as construction and rehabilitation of schools and health posts; and (c) other investments such as small-scale community agro-processing, purchase of agricultural equipment, development of minor irrigation schemes, transportation, and purchase of building materials.

Part C: Community Development Support and Project Dissemination at the Participating State Level

Strengthening of the quality and effectiveness of Project activities through:

1. Provision of technical assistance and training for Beneficiaries and potential Beneficiaries in, inter alia, community mobilization and organization, preparation of Community Subprojects, and operation and maintenance of investments.
2. Design and carrying out of information campaigns within the Participating States' territory to disseminate information about the Project, through, inter alia, posters, radio spots, leaflets and videos.
3. Exchange of information on the operation, maintenance and overall results of Community Subprojects within a Participating State, as well as among the Participating States.

Part D: Project Administration at the Participating State Level

Strengthening of the capacity of the STUs, their field offices and other agencies of the Participating States in respect of Project coordination, supervision and monitoring through the provision of technical assistance, training and office equipment and the financing of incremental costs.

Part E: Project Evaluation and Dissemination at the Borrower's Level

1. Carrying out of an evaluation study of the impact of specific land reform programs (including an evaluation of the impact of the Project) conducted at the State and at the national levels.
2. Carrying out of studies relating to land policy issues, including, inter alia, analysis of land prices, availability of lands for sale, land holdings by commercial banks, the effect of a market-assisted land reform on land markets, and institutional and financial options for the Borrower's land reform program.
3. Support for the activities to be carried out under the Project by the NTU through the provision of consultants' services and data processing services.

* * *

The Project is expected to be completed by March 31, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. National Competitive Bidding

Except as provided in Parts B.2, B.3 and B.4 hereof, goods and works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. In the procurement of goods and works in accordance with this Part B.1, bidding documents in a standardized form for the Project shall be used.

Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement of goods and/or works to be undertaken pursuant to this Part B.1:

(a) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.

(b) whenever required by the Bank, the invitation to bid shall be advertised for at least three consecutive days in a newspaper of wide circulation in Brazil.

(c) the arrangements, under the invitation to bid, for a joint-venture (consórcio) of Brazilian and foreign firms shall be approved in advance by the Bank in each case.

(d) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.

(e) the purchaser shall not, without the Bank's prior approval, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.

2. National Shopping

Except as provided in Part B.4 hereof, goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount equivalent to \$5,400,000, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Except as provided in Part B.4 hereof, works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount equivalent to \$3,400,000, may be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully complete the contract.

4. Community Participation

Goods and works, financed by Grants under Part B of the Project for Community Subprojects costing up to \$50,000 equivalent, to be procured by a Beneficiary, may be procured in accordance with procedures acceptable to the Bank as provided in paragraph 3.15 of the Guidelines (including direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines) as detailed in the Operational Manual.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract to be awarded pursuant to the provisions of Part B.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines

shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

General Terms and Conditions of

Participation Arrangements

Participation Arrangements shall be made on terms whereby the Borrower, through MDA, shall obtain rights adequate to protect the interests of the Borrower and the Bank, including, but not limited to, the right to:

1. Require the relevant Participating State to carry out (or cause to be carried out) its corresponding activities under Parts A, B, C and D of the Project with due diligence and efficiency and in accordance with appropriate technical, financial, managerial, environmental and social standards and practices, and to maintain adequate records.
2. Require the relevant Participating State to carry out its corresponding activities under Parts A, B, C and D of the Project in conformity with the Operational Manual, and the relevant State Annual Operating Plan referred to in paragraph 8 of this Schedule.
3. Require that: (a) the goods, works and consultants' services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and (b) such goods and services shall be used exclusively in the carrying out of the Parts A, B, C and D of the Project.
4. Inspect, by itself or jointly with representatives of the Bank, if the Bank shall so request, such goods and the sites, works, plants and construction included in Parts A, B, C and D of the Project, and, as the case may be, the operation thereof, and any relevant records and documents.
5. Obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the relevant Participating State.
6. Suspend or terminate the right of the relevant Participating State to the use of the proceeds of the Loan upon failure by such Participating State to perform its obligations under Parts A, B, C and D of the Project.
7. Require the relevant Participating State to establish and thereafter maintain during Project implementation, with adequate facilities and equipment, a technical coordination unit (the STU) with staff in adequate numbers and with adequate qualifications, and with responsibilities, structure and functions satisfactory to the Bank, including:
 - (a) the responsibility for the overall coordination of the relevant Participating State's participation in the implementation of the Project, including, inter alia, the provision of support to, and the coordination of, the participation of other entities involved in the relevant Participating State's activities under A, B, C and D of the Project;
 - (b) with respect to each proposal for a Community Subproject, and without limitation to Section 9.09 of the General Conditions, evaluating the land tenure status of the land required for the Community Subproject in order to confirm that such land and rights in respect of land are physically and legally available for the purposes of such proposed Community Subproject and that the negotiated land purchase price is consistent with the existing local land market conditions; and

(c) upon such confirmation, and the fulfillment of any other requirement set forth in the Operational Manual for the making of a Land Loan, informing LLFA of its concurrence with the provision of a Land Loan.

8. Require that the relevant Participating State shall, in the month of October of each year during Project implementation, furnish to MDA an annual plan satisfactory to MDA (a State Annual Operating Plan), describing, inter alia, the Project activities (and their relation to the objectives of the Project) to be carried out during the next calendar year, including the costs thereof.

9. Require that the relevant Participating State shall adopt the MIS.

10. Without limitation upon the provisions of Sections 9.01 (a) and 9.07 of the General Conditions, require that the relevant Participating State shall:

(a) in the months of March and September of each year during Project implementation furnish to MDA reports on the progress in the implementation of the relevant Participating State's activities under A, B, C and D of the Project during the previous six months which shall be based on the indicators set forth in the Project Monitoring Letter, such reports to be of such scope and in such detail as the Bank shall reasonably request;

(b) in a month eighteen months after the Effective Date, furnish to MDA a report on the overall progress in the implementation of the relevant Participating State's activities under A, B, C and D of the Project which shall be based on the targets and indicators set forth in the Project Monitoring Letter, such report to be of such scope and in such detail as the Bank shall reasonably request;

(c) in the months of May and November of each year during Project implementation hold reviews jointly with MDA and the Bank, such reviews to be based on the reports referred to in paragraph (a) above and, thereafter, take or cause to be taken all such action which shall have been agreed upon by the relevant Participating State, MDA, and the Bank during the reviews referred to in this paragraph, as necessary for the efficient execution of its corresponding activities under the Project or the achievement of its objectives, such action to be taken in the manner and within the timetable agreed upon during such reviews; and

(d) in a month sixteen months after the Effective Date, hold a mid-term review jointly with MDA and the Bank, such review to be based on the report referred to in paragraph (b) above and, thereafter, take or cause to be taken all such action which shall have been agreed upon by the relevant Participating State, MDA, and the Bank during the review referred to in this paragraph, as necessary for the efficient execution of its corresponding activities under the Project or the achievement of its objectives, such action to be taken in the manner and within the timetable agreed upon during such review.

11. Require that the relevant Participating State shall assist MDA, in the preparation of the plan referred to in Section 3.11 of the Loan Agreement and the report referred to in Section 9.07 (c) of the General Conditions, as provided in the Operational Manual.

12. Require that the relevant Participating State shall promptly inform MDA, of any condition which interferes or threatens to interfere with the progress of the carrying out of its activities under the Project, the accomplishment of the purposes of the Loan, or the performance by the relevant Participating State under the respective relevant Participation Arrangement.

