

February 3, 1993

His Excellency
Mr. Paulo Roberto Haddad
Minister of Finance
Federative Republic of Brazil

Mr. Antonio Barros de Castro
President Banco Nacional de Desenvolvimento
Economico e Social

Re: Loan No. 2831-BR (Second Industrial Pollution
Control Project)
Special Account - Amendment

Dear Sirs:

Please refer to the Loan Agreement, dated July 27, 1987, entered into between Federative Republic of Brazil (the Borrower) and International Bank for Reconstruction and Development (the Bank) and Banco Nacional de Desenvolvimento Economico e Social for the above Project.

As a result of the Borrower's decision, approved by the Bank, to transfer to commercial banks the Special Account opened pursuant to the Loan Agreement, the following amendments need to be made in such Agreement:

1. The expressions "CESA" and "FESA" are replaced by the expression "Special Account" wherever they appear in the Loan Agreement.

2. Paragraph (b) of Section 2.02 of the Loan Agreement is amended to read as follows:

"(b) The Borrower shall, for the purposes of the Project, open and maintain in _____ dollars a special deposit account (the Special Account) in a commercial bank _____ acceptable to the Bank on terms and conditions satisfactory to the Bank, including _____ appropriate protection against set-off, seizure or attachment. Deposits into, and _____ payments out of, the Special Account shall be made in accordance with the provisions _____ of Schedule 3 to this Agreement."

3. The provisions of Schedule 3 to the Loan Agreement are replaced by the provisions in the Annex to this letter.

If you agree with the foregoing amendment, please sign the copy of this letter in the space provided below and return it to us.

The present amendment will become effective only after the Bank shall have received a certified statement of the Special Account reconciled to the satisfaction of the Bank, and the Bank shall be satisfied that the Borrower is in full compliance with the Special Account provisions of the Loan Agreement being amended hereby.

Sincerely yours,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Stephen J. Ettinger
Acting Director
Country Department I
Latin America and the Caribbean Region

AGREED:

FEDFRATTVE REPUBLIC OF BRAZIL

By /s/
Authorized Representative

BANCO NACIONAL DE DESENVOLVIMENTO
ECONOMICO E SOCIAL

By /s/
Authorized Representative

Date: JUNE 02, 1994.

ANNEX

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the categories of items to be financed out of the proceeds of the Loan pursuant to paragraph (d) of Section 2.02 of this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Section 2.02 of this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

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

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

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

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

