

CONFORMED COPY

LOAN NUMBER 2960 BR

(Fourth Agro-Industries Credit Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 31, 1989

LOAN NUMBER 2960 BR

LOAN AGREEMENT

AGREEMENT, dated May 31, 1989, between FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated March 28, 1988, as updated by letter dated May 12, 1988, from the Borrower describing a program of actions, objectives and policies designed to contract the supply of official (interest-rate controlled) credit to the agricultural sector, including agro-industries (hereinafter called the Program), declaring the Borrower's commitment to the implementation of the Program and requesting the assistance of the Bank in financing the Project as part of such Program;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement;

(C) the Project will be carried out by the Borrower with the assistance of Participating Banks (as hereinafter defined) and, as part of such assistance, the

Borrower will make available to such Participating Banks 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;

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 (the General Conditions), with the last sentence of Section 3.02 deleted, 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) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "STN" means the National Treasury Secretariat, Secretaria do Tesouro Nacional, of the Ministry of Finance, Ministerio da Fazenda, of the Borrower;

(c) "Central Bank" means Banco Central do Brasil, the Central Bank of the Borrower established by Lei No. 4,595 of December 31, 1964 of the Borrower;

(d) "Participating Bank" means a bank which has been accredited by the Central Bank to participate in making Subloans under the Project;

(e) "Subborrower" means a person, group of persons, or an entity, having juridical capacity under the laws of the Borrower to enter into contracts, to whom or which a Participating Bank has made a Subloan (as hereinafter defined);

(f) "Subproject" means an investment by a Subborrower in agro-industry, including the manufacture of farm inputs, equipment and machinery, and the storage, cleaning, grading, processing and packaging of raw agricultural products prior to retailing of such products;

(g) "Subloan" means a loan made in accordance with the terms and conditions set forth in Schedule 7 to this Agreement, by a Participating Bank out of the proceeds of the Loan to a Sub-borrower for the financing of a Subproject and which may include the financing of working capital associated with such Subproject;

(h) "Participating Agreement" means the agreement to be entered into, pursuant to Section 3.01(b) of this Agreement, between the Borrower and each Participating Bank for purposes of making Subloans to Subborrowers;

(i) "Free-limit Subloan" means a Subloan that is for a total amount of less than the equivalent of five million dollars;

(j) "FSRMM" means the Borrower's Freight Surcharge for the Renewal of the Merchant Marine, Adicional ao Frete Para a Renovacao da Marinha Mercante-AFRMM, established by Decree Law No. 1.142 of December 30, 1970, as amended to December 31, 1987 or any other tax, levy or charge that, in the reasonable opinion of the Bank, may be substituted for it, in whole or part, after January 1, 1988;

(k) "IPC" means the official, monthly index of inflation as reflected by the Consumer Prices Index, Indice de Precos ao Consumidor, currently published by Fundacao Instituto Brasileiro de Geografia e Estatistica;

(l) "Operation Limits" means Limites de Operacoes, as defined in the Manual of Norms and Instructions, Manual de Normas e Instrucoes, issued by the Central Bank

as amended from time to time, setting forth debt-equity ratios, loan exposure limits and other financial limits for banks;

(m) "Basket of Currencies" means the various currencies, or any representative subset of such currencies acceptable to the Borrower and the Bank, which are recorded by the Bank in its Central Disbursement Account reflecting loan disbursements to borrowers; and

(n) "cruzado novo" means the currency of the Borrower.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to three hundred million dollars (\$300,000,000).

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 expenditures made, or if the Bank shall so agree, to be made, in respect of the reasonable cost of goods and works financed by Subloans as listed in such Schedule.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in the Central Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1992 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate 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 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 15 and September 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to this end, shall carry out the Project, through STN and with the assistance of Participating Banks, all with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural and environmental standards and practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such part of the Project.

(b) Without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall enter into a Participating Agreement, acceptable to the Bank and including the terms and conditions set forth in Schedule 6 to this Agreement, with each Participating Bank accredited by Central Bank pursuant to Section 3.03 of this Agreement, which participates, or will participate, in the making of Subloans.

(c) Except as the Bank shall otherwise agree, the Borrower shall not amend, waive, abrogate or fail to enforce the provisions of any such Participating Agreement.

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

Section 3.03. (a) The Borrower, through contractual arrangements, shall cause Central Bank to review the financial status and administrative capacity of each Participating Bank which participates, or proposes to participate, in carrying out the Project, and to determine whether such Participating Bank shall be accredited for such purposes in accordance with the following criteria:

(i) that such Participating Bank has complied with the Operation Limits;

(ii) that the arrears in repayments of such Participating Bank's outstanding loan portfolio are no more than 10% of the total outstanding repayments required for all loans included in such portfolio;

(iii) that such Participating Bank has qualified and competent staff in adequate numbers to appraise Subprojects and manage Subloans; and

(iv) for purposes of this paragraph, the term "arrears in repayments" is defined as repayments attributable to principal or interest due and outstanding for a period of six months or more, including capitalized interest, and principal or interest which has been refinanced by changing the terms and conditions of a loan or by the making of a new loan.

(b) The Borrower, through contractual arrangements, shall cause Central Bank:

(i) to perform the review and accreditation referred to in paragraph (a) of this Section with respect to each Participating Bank prior to the Borrower's entering into a Participating Agreement with such Participating Bank and on an annual basis thereafter through completion of the Project;

(ii) to notify Treasury of such accreditation or lack thereof; and

(iii) to notify the Bank promptly of any change in the Operation Limits.

(c) If at any time the Central Bank notifies STN that accreditation of a Participating Bank has been withdrawn, then the Borrower shall:

(i) notify the Bank of such withdrawal of accreditation; and

(ii) ensure that such Participating Bank which is not accredited shall not make further Subloans while it remains unaccredited.

Section 3.04. The Borrower shall:

(a) carry out supervision of the Project, in a manner satisfactory to the Bank, with management and staff adequate in numbers, qualifications and experience, and utilizing appropriate financial control systems;

(b) without restriction upon or limitation to, the Borrower's other reporting requirements under this Agreement and the General Conditions, submit to the Bank: (i) on a monthly basis, a summary of the reports of Participating Banks setting forth for each such Participating Bank, the number and principal amounts outstanding of new Subloans made by, and the total amount disbursed to and repayed by, such Participating Bank during the relevant month; and (ii) on a quarterly basis, a summary of the reports provided by the Participating Banks to the Borrower on the progress of making Subloans by such Participating Banks, including information regarding the number and principal amounts outstanding of Subloans, and disbursements to and repayments made by Subborrowers, classified by region, state, type of activity and investment; and

(c) utilize internal procedures, satisfactory to the Bank, for disbursing the proceeds of the Loan to Participating Banks and for receiving repayments from Participating Banks, including, inter alia, the following:

(i) disbursements from a Subloan by a Participating Bank to Subborrowers shall be made after the signing of contracts, or upon evidence of payment made or invoices due for goods or works; such disbursements may be made by the Participating Bank directly to the Subborrower or to the supplier of such goods or works;

(ii) upon making disbursements for Subloans, the Participating Bank may request payment under its Participating Agreement from STN; STN shall, upon receiving such request, authorize Central Bank to credit the reserve account of the Participating Bank with the amounts so disbursed under the Participating Agreement; and

(iii) when repayments of amounts received by a Participating Bank under its Participating Agreement are due, STN shall authorize Central Bank to debit the reserve account of such Participating Bank with a corresponding amount.

Section 3.05. (a) Prior to making a Subloan the total amount of which is the equivalent of five million dollars or more, the Borrower shall submit to the Bank for its review and approval, each such Subloan, together with such information about such Subloan, Subborrower and Subproject as the Bank shall reasonably request.

(b) The Borrower shall submit to the Bank for its review, the first four Free-limit Subloans made, together with such information about each such Free-limit Subloan, Subborrower and Subproject as the Bank shall reasonably request.

Section 3.06. (a) The Borrower shall, on an annual basis and at the request of either party, exchange views with the Bank on the progress achieved in carrying out the Project and the Program.

(b) On a quarterly basis and prior to each such exchange of views, the Borrower shall furnish to the Bank a report, in such detail as the Bank may reasonably request, on such progress achieved.

ARTICLE IV

Financial Covenants

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

Project or any part thereof, and of the Participating Banks.

(b) The Borrower shall:

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

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, a certified copy of 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 accounts and the audit thereof and said records 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, separate records and accounts reflecting such expenditures;

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

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

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

ARTICLE V

Remedies of the Bank

Section 5.01. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified pursuant to paragraph (k) thereof:

(a) that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) that the Borrower shall have failed to carry out the Program; and

(c) that a change shall have been made in the Operation Limits which, in the opinion of the Bank, could adversely affect the carrying out of the Project.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Loan Agreement has been registered by the Central Bank.

Section 6.02. 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 or opinions to be furnished to the Bank, namely, that the Loan Agreement has been duly registered by the Central Bank.

Section 6.03. The date August 29, 1989 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions.

For the Borrower:

Ministerio de Fazenda
Edificio Ministerio da Fazenda
Esplanada dos Ministerios
70048 Brasilia, D.F., Brasil

Cable address:

MINIFAZ
Brasilia, Brasil

Telex:

611506 MFAZ BR

with copies to:

Banco Central do Brasil
Diretoria de Credito Rural,
Industrial e Programas Especiais
Edificio Sede do Banco Central do Brasil
10o andar
Setor Bancario Sul
70070 Brasilia, D.F., Brasil

Cable address:

BANCENTRAL
Brasilia, Brasil

Telex:

0612149

Secretaria do Tesouro Nacional
Anexo A - Sala 119,
Edificio Ministerio da Fazenda
Esplanada dos Ministerios
70048 Brasilia, D.F. Brasil

Telex:

0611008

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

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/ Cid Heraclito de Queiroz
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Husain
Regional Vice President
Latin America and the Caribbean

Witnessed by:

Joao Batista de Abreu
Minister, Secretary General of Planning

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) Subloans	300,000,000	100% of the amounts disbursed by Participating Banks for Subloans
TOTAL	300,000,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of a Subloan made by a Participating Bank and financed out of the proceeds of the Loan:

(a) unless the Bank has received a true and correct copy of the Participating Agreement with respect to such Participating Bank and a satisfactory opinion or opinions of a counsel, acceptable to the Bank, that such Participating Agreement is legally binding upon the Borrower and the relevant Participating Bank in accordance with its terms;

(b) unless the Subloan has been approved by the Bank or is a Free-limit Subloan (other than those Free-limit Subloans referred to in Section 3.05 of this Agreement); and

(c) if such Subloan finances goods the importation of which has been prohibited by the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support productive agro-industrial investments and to liberalize credit in the agricultural sector.

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

Agro-Industrial Credit

Provision of Subloans to finance Subprojects and associated working capital.

* * * *

The Project is expected to be completed by June 30 1992.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each March 15 and September 15	
beginning March 15, 1994	
through September 15, 2003	15,000,000

* 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
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Procurement of Goods and Works

Part A: International Competitive Bidding

Except as Provided in Part C hereof, goods and works procured under contracts expected to cost the equivalent of \$5,000,000 or more and financed from the proceeds of the Loan, shall be procured in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers; Reserved Procurement

1. In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Brazil may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto, provided, however, that:

(a) All bidding documents for the procurement of goods shall clearly indicate any preference which would be granted, the information required to establish the eligibility of a bid for such preference and the following methods and stages that will be followed in the evaluation and comparison of bids.

(b) After evaluation, responsive bids will be classified in one of the following two groups:

(1) Group A: bids offering goods manufactured in Brazil if the bidder shall have established to the satisfaction of the Borrower and the Bank that such goods contain components manufactured in Brazil equal to at least 50% of the value of the completed goods.

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

(c) In order to determine the lowest evaluated bid of each group, all evaluated bids in each group shall first be compared among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, or the sales and similar taxes levied in connection with the sale or delivery of the goods pursuant to the bids. Such lowest evaluated bids shall then be compared with each other, and if, as a result of this comparison, a bid from group A

is the lowest, it shall be selected for the award.

(d) If, as a result of the comparison under paragraph (c) above, the lowest evaluated bid is a bid from group B, all group B bids shall be further compared with the lowest evaluated bid from group A after adding: (i) to the evaluated bid price of goods to be imported in each group B bid an amount equal to the smaller of: (A) the amount of custom duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in such group B bid; or (B) 15% of the c.i.f. bid price of such goods; and (ii) to the ex-factory bid price of goods supplied domestically offered in each group B bid an amount equal to the smaller of: (A) the amount of custom duties and other import taxes which would be levied on the goods offered in such group B if they originated from the same foreign country as the bid included in group B which enjoys the lowest custom duties and other import taxes, or (B) 15% of the ex-factory bid price of such goods. If, as a result of this comparison, the bid from group A is the lowest, it shall be selected for the award; if not, the lowest evaluated bid from group B, as determined under paragraph (c) above, shall be selected for the award.

2. No goods, the importation of which has been prohibited by the Borrower, shall be financed from the proceeds of the Loan.

Part C: Other Procurement Procedures

Goods and works procured under contracts estimated to cost less than the equivalent of \$5,000,000 and financed from the proceeds of the Loan shall be purchased at a reasonable price, taking into account 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 works, of their quality and the competence of the parties performing such works.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract procured under Part A of this Schedule, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. When payments for such contract are to be made out of the Special Account such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. When payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(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 statement 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.

Part E: Other Provisions

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$30,000,000 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 it 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) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(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. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Category, 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, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

(i) 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

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Category minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Category 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 any expenditure or in any 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, 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. 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, after consultation with the Borrower 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.

SCHEDULE 6

Terms and Conditions of Participating Agreements

Section I: General Terms

1. The Borrower shall enter into a written agreement, acceptable to the Bank, with each Participating Bank providing arrangements for, inter alia:

(a) relending a portion of the proceeds of the Loan to such Participating Bank for purposes of making Subloans under the Project, but only on condition that such Participating Bank agrees to be bound by the terms and conditions of this Agreement regarding its obligations in the execution of the Project, including, without limitation, Section 4.01 of this Agreement (maintenance of records and accounts), and Schedule 4 to this Agreement (procurement), as the same may be amended from time to time by agreement between the Borrower and the Bank;

(b) repayment to the Borrower, of all amounts relent to the Participating Bank; such Participating Bank to bear the credit risk associated with any failure by Subborrowers to repay Subloans;

(c) the requirement that all Subloans financed under the Project shall be made in accordance with the terms and conditions of Schedule 7 to this Agreement;

(d) the requirement that such Participating Bank furnish to the Bank, through the Borrower, the information required by Section 3.04 (b) of this Agreement and such other information as the Borrower may require to comply with its obligations under this Agreement;

(e) the requirement that the Participating Bank submit, through the Borrower, to the Bank for its prior approval, each Subloan for a principal amount equivalent to five million dollars or more, and that the Participating Bank shall have the sole right of approval for Subloans below such amount;

(f) the requirement that the Participating Bank comply with the disbursement procedures referred to in Section 3.04 (c) of this Agreement; and

(g) the right of the Borrower to suspend or terminate the right of the Participating Bank to use the proceeds of the Loan upon failure by such Participating Bank to perform any of its obligations under the Participating Agreement.

2. The Borrower shall cause each Participating Bank to exercise its rights in relation to each Subloan, Subborrower and Subproject in such manner as to: (i) protect the interests of the Borrower, the Bank, and the Participating Bank; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section II: Terms of Relending the Proceeds of the Loan

1. Amounts relent by the Borrower to a Participating Bank shall be in accordance with the terms of any one or more of the following Options:

- Option 1:
- a. Currency Denomination. Basket of Currencies.
 - b. Interest Rate. The annual interest rate charged from time to

time on all amounts withdrawn and outstanding under this
Option shall be the same variable interest rate, adjusted
every six months, as shall be applicable under the terms
of Section 2.05 of this Agreement.

Option 2: a. Currency Denomination. Dollars.

b. Interest Rate. The annual interest rate charged from time to
time on all amounts withdrawn and outstanding under this
Option shall be the same variable interest rate as shall be
applicable under the terms of Section 2.05 of this Agreement,
adjusted every six months on the following basis or, if the
Bank shall so agree, on such other basis acceptable to
the Bank:

(i) the interest rate applicable under Section 2.05 of
this Agreement shall be the initial interest rate;

(ii) such initial interest rate shall be adjusted by a
factor determined by subtracting the
Multicurrency Bond Yield from the US Dollar Bond
Yield, as such terms are defined below, calculated as of
any date not more than five business days before each
interest payment date, provided, however, that for a period of
one year after the Effective Date such factor shall be 1.5
percentage points. For these purposes, the terms "Multicurrency
Bond Yield" and "US Dollar Bond Yield" shall mean the
respective weighted average yields to maturity of those
outstanding Bank bonds denominated in: (A) US dollars,
Deutsche mark, Swiss francs, Japanese Yen or
Netherlands Guilders, and (B) US dollars only, which
bonds are interest bearing, publicly-traded quoted on
Reuters Quotation Service (or such other source acceptable to the
Bank) and have a remaining life to maturity of not less than five
years and not more than ten years. Such weighted average yields
shall be determined in a manner acceptable to the Bank.

Option 3: a. Currency Denomination. Cruzados novos.

b. Interest Rate. The annual interest rate charged from time to
time on all amounts withdrawn and outstanding under this
Option shall be the same variable interest rate as shall be
applicable under Option 2 above, plus not less than a
minimum of .8 percentage points and not more than a
maximum of 2.5 percentage points, the applicable points to
be determined within such range by subtracting IPC Inflation from
Cruzado Novo Depreciation. For these purposes, the term "IPC Inflation"
means the total percentage change in the IPC over the six month period
prior to making such determination and the term "Cruzado Novo
Depreciation" means any decline (measured in percentage
points) in the value of the cruzado novo in relation to the
Dollar over the same six month period.

c. Adjustment of Outstanding Principal Amounts Owed. On the
last day of each month after the date of relending funds from the
Borrower to the Participating Bank under this Option, the
outstanding balance of amounts owed shall be adjusted on
the basis of the monthly percentage change in the IPC.

2. The following general terms shall be applicable to all amounts relent by the
Borrower to a Participating Bank pursuant to a Participating Agreement.

a. Repayment. All amounts shall be repaid in cruzados novos,
any rate of exchange to be determined as of the date of each
repayment.

b. Term. All amounts relent by the Borrower to a Participating

Bank pursuant to a Participating Agreement shall be repaid over the same term as the Subloan or Subloans made by the Participating Bank utilizing such amounts.

c. Fee. Each Participating Bank shall pay to the Borrower a fee of one-half percentage point per annum on all amounts withdrawn and outstanding pursuant to its Participating Agreement.

SCHEDULE 7

Terms and Conditions of Subloans

1. Terms and Conditions

Each Subloan, unless otherwise agreed by the Bank, shall include the following terms and conditions:

- (i) Appraisal. Each Subloan shall be made only for a Subproject appraised by the Participating Bank making such Subloan;
- (ii) Currency. Subloans shall be denominated in Basket of Currencies, dollars or cruzados novos and shall be repayable in cruzados novos, any rate of exchange to be determined shall be determined as of the date of each repayment;
- (iii) Term. Subloans may be made for a term of up to twelve years and may include a grace period not exceeding three years;
- (iv) Interest Rate. Subloans made by each Participating Bank shall bear annual interest rates determined by such Participating Bank in accordance with established commercial practices, provided, however, that each such Participating Bank shall recover at least the cost of borrowing funds under its Participating Agreement; and
- (v) Maximum Amount Limitations. (i) the maximum amount of each Subloan shall be fifty percent of the total cost of the Subproject; (ii) the maximum amount of working capital that may be financed by a Subloan shall be fifty percent of that portion of the total investment cost of the Subproject that is financed by such Subloan; and (iii) the maximum aggregate amount that any one Subborrower may borrow for a Subloan or Subloans shall be the equivalent of fifteen million dollars.

2. Written Contract. Each Subloan financing a Subproject shall be made pursuant to a written contract between the Participating Bank and the Subborrower, providing:

- (i) for the obligation of such Subborrower to carry out and operate the Subproject with due diligence and efficiency and in accordance with the standards and practices referred to in Section 3.01 of this Agreement;
- (ii) that the goods and works to be financed out of the proceeds of the Loan shall be procured in accordance with Schedule 4 to this Agreement;
- (iii) that the goods and works to be financed out of the proceeds of the Loan shall be used exclusively in the carrying out of the Subproject;
- (iv) that the Participating Bank can inspect, by itself or jointly with the Bank, if the Borrower, Central Bank or the Bank shall so request, such goods and the sites, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents;
- (v) for the obligation of the Subborrower to furnish all such

information as the Borrower or the Bank or the Participating Bank shall
reasonably request relating to the foregoing and to the
administration, operations and financial condition of the
Subborrower and to the benefits to be derived from the
Subproject; and

(vi) the right of the Participating Bank to suspend or terminate the
right of the Subborrower to the use of the proceeds of the Subloan upon
failure by such Subborrower to perform any of their
obligations under the contract with the Participating Bank.

