

CONFORMED COPY

LOAN NUMBER 3268-BR

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LOAN AGREEMENT

AGREEMENT, dated January 14, 1991, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BANCO NACIONAL DE DESENVOLVIMENTO ECONOMICO E SOCIAL (the Borrower).

WHEREAS (A) the Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth in Schedule 4 to this Agreement (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) "Account Bank" means the bank referred to in paragraph (c) of Section 2.02 of this Agreement;

(b) "Central Bank" means Banco Central do Brasil, the Central Bank of Brazil, established by the Guarantor's Law No. 4,595 of December 31, 1964;

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

(d) "Cruzeiros" means the currency of the Guarantor;

(e) "FESA" means the Special Account referred to in paragraph (c) of Section 2.02 of this Agreement;

(f) "Financial Intermediary" means a financial institution (with more than 50% of its voting capital owned by persons other than the Guarantor, any political or administrative subdivision thereof, or any entity owned or controlled by any of them) considered by the Borrower as eligible to participate in the carrying out of Part A of the Project;

(g) "Free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 1 (b) of Schedule 5 to this Agreement;

(h) "FSRMM" means Adicional ao Frete Para a Renovacao da Marinha Mercante - AFRMM, the Guarantor's Freight Surcharge for the Renewal of the Merchant Marine established by Decree Law 1,142 of December 30, 1970, as amended to December 31, 1987, or any other tax, levy or charge that, in the reasonable opinion of the Bank, may substitute it, in whole or part, after January 1, 1988;

(i) "Investment Enterprise" means an enterprise (with more than 50% of its voting capital owned by persons other than the Guarantor, any political or administrative subdivision thereof, or any entity owned or controlled by any of them) to which the Borrower or a Financial Intermediary proposes to make or has made a Sub-loan;

(j) "Investment Project" means a specific development project in any region of Brazil to be carried out by an Investment Enterprise in any sector of the Guarantor's economy utilizing the proceeds of a Sub-loan;

(k) "Special Account" means either of the accounts to be opened and maintained pursuant to paragraphs (b) and (c) of Section 2.02 of this Agreement, unless otherwise required by the context;

(l) "Statement of Policy" means the statement of lending and investment policy approved by the Board of Directors of the Borrower on January 18, 1990, as amended from time to time;

(m) "Statutes" means the statutes of the Borrower as set forth in Decreto No. 73.713 of the Guarantor, dated March 1, 1974, as amended from time to time; and

(n) "Sub-loan" means any loan made or proposed to be made by the Borrower or by a Financial Intermediary out of the proceeds of the Loan to an Investment Enterprise for an Investment Project under Part A of the Project.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of three hundred million dollars (\$300,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower, directly or through a Financial Intermediary, on account of withdrawals made by an Investment Enterprise under a Sub-loan to meet the reasonable cost of goods and works required for the Investment Project in respect of which the withdrawal from the Loan Account is

requested; and (ii) for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of services required for Part B of the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain a special deposit account in dollars in the Central Bank on terms and conditions satisfactory to the Bank.

Deposits into, and payments out of, this special deposit account (CESA) shall be made exclusively to meet expenditures in Cruzeiros incurred in respect of the reasonable cost of goods, works and services required to carry out the Project and to be financed by the Bank pursuant to paragraph (a) above.

(c) The Borrower shall, for the purposes of the Project, open and maintain thereafter in a bank acceptable to the Bank (the Account Bank) a special deposit account in dollars on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, this special account (FESA) shall be made exclusively to meet expenditures in currencies other than Cruzeiros incurred in respect of the reasonable cost of goods, works and services required to carry out the Project and to be financed by the Bank pursuant to paragraph (a) above.

(d) Deposits into, and payments out of, CESA and FESA shall be made in accordance with the provisions of Schedule 7 to this Agreement. The Borrower shall furnish to the Bank each month certified statements of CESA and FESA.

Section 2.03. The Closing Date shall be December 31, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to

read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on May 15 and November 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; Management and Operations of the Borrower

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 and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Statutes and the Statement of Policy.

(b) The Borrower shall enter into agreements, satisfactory to the Bank, with Financial Intermediaries for purposes of the participation by such Financial Intermediaries in the carrying out of Part A of the Project.

(c) Not later than sixty days after the Effective Date, the Borrower shall inform all Financial Intermediaries about the availability of the proceeds of the Loan, such information to include, inter alia, the main conditions for the participation of such Financial Intermediaries in the carrying out of Part A of the Project, and the procedures for and terms and conditions of Sub-loans.

(d) The Borrower shall, not later than March 31, 1991, furnish to the Bank, for information, the details of the training program to be carried out under Part B (i) of the Project.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

(b) The Borrower shall, and shall cause each Financial Intermediary to, exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) enable the Borrower to comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. 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 6 to this Agreement.

Section 3.04. (a) Notwithstanding the provisions of paragraph 2 (a) and (b) of Schedule 5 to this Agreement, within the period of twelve months from the Effective Date, the Bank may limit the

approval of applications or authorizations of requests under such paragraph 2 (a) and (b) to Sub-loans (including Free-limit Sub-loans) in amounts to be financed out of the proceeds of the Loan aggregating not more than the equivalent of \$150,000,000.

(b) On the dates falling on the twelfth month and the twenty-fourth month after the Effective Date, respectively, the Bank and the Borrower shall review the progress made by the Borrower by such respective dates in the achievement of the objectives of the Project and the Borrower's plans for the succeeding twelve-month period, such reviews to be based on the criteria set forth in sub-paragraphs (a), (b) and (d) of the third paragraph of the Borrower's letter to the Bank dated August 8, 1990.

(c) If, after each review referred to in paragraph (b) above, the Bank shall have reasonably considered as non-satisfactory the progress made by the Borrower in the achievement of the objectives of the Project or the Borrower's plans for the succeeding twelve-month period, the Bank may not approve applications or authorize requests under paragraphs 2 (a) and (b) of Schedule 5 to this Agreement until the Borrower shall have taken such remedial action, satisfactory to the Bank, as shall be necessary to meet the criteria referred to in paragraph (b) above.

Section 3.05. The Borrower shall, not later than January 31, 1991, establish and thereafter maintain, until at least the Closing Date, overall credit and risk limits for financial institutions which are intermediary in the allocation of the Borrower's funds, such limits to be considered technically and reasonably adequate by the Borrower and the Bank to achieve the objectives referred to in Section 3.01 (a) of this Agreement.

Section 3.06. The Borrower shall, not later than on the date falling twelve months after the Effective Date, establish and thereafter maintain, until at least the Closing Date, policies and procedures to determine creditworthiness criteria and parameters for setting credit limits for clients (other than financial institutions) which borrow directly from the Borrower, such policies and procedures to be considered technically and reasonably adequate by the Borrower and the Bank to achieve the objectives referred to in Section 3.01 (a) of this Agreement.

Section 3.07. The Borrower shall, not later than December 31, 1991: (i) establish risk management programs according to consistently maintained sound banking and technical practices; and (ii) prepare and present to the Bank a report on the assessment of the effectiveness of the Borrower's policy for obtaining security for its lending operations.

Section 3.08. The Borrower shall: (i) not later than December 31, 1991, review with the Bank the Borrower's lending portfolio for the purposes of verifying the progress made by the Borrower in reducing the arrears existing on March 31, 1990 under the Borrower's lending operations; and (ii) promptly thereafter, furnish to the Bank a report containing: (i) the Borrower's plans and actions to settle any such remaining arrears; and (ii) the actions taken by the Borrower for such purpose.

Section 3.09. Without limitation or restriction to the provisions of Section 9.01 of the General Conditions, the Borrower shall promptly inform the Bank of any amendment to the Statutes or the Statement of Policies.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. The Borrower shall: (i) maintain procedures and records and accounts adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower; and (ii) cause each Financial Intermediary to maintain records and accounts adequate to record the progress of each Investment Project (including its cost and the benefits to be derived from it) financed by such Financial Intermediary and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the

Financial Intermediary.

Section 4.02. (a) The Borrower shall:

(i) have the records and accounts referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Accounts for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year: (A) certified copies of said financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) 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, in accordance with Section 4.01 of this Agreement, 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, in-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 (a) 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 4.03. The Borrower shall take such steps which, in the reasonable opinion of the Bank, are necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its borrowing and lending operations. For such purpose, the Borrower shall continue to fully hedge its foreign exchange exposure.

## ARTICLE V

### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) the Statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement;

(b) the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement; and

(c) the adjustment on the principal of the loans made by the Borrower in Cruzeiros together with the interest rates applicable to such loans shall, in the Bank's opinion, have failed to be positive for three consecutive months in relation to the prevailing inflation rate in Brazil as measured by the Consumer Price Index of Instituto Brasileiro de Geografia e Estatistica or such other index determined by the Borrower or by the Guarantor, such index to be satisfactory to the Bank.

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

(a) the event specified in paragraph (a) of Section 5.01 shall occur; and

(b) the events specified in paragraphs (b) or (c) of Section 5.01 shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as 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 duly registered by the Central Bank.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

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

(b) that all acts, consents and approvals, together with all necessary powers and rights in connection therewith, have been duly and validly performed or given and that no other such acts, consents or approvals are required in order to authorize the carrying out of the Project and to enable the Borrower and the Guarantor to perform all of their respective covenants, agreements and obligations contained in the Loan Agreement and Guarantee Agreement, respectively.

Section 6.03. The date of April 15, 1991 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Miscellaneous

Section 7.01. The President of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

197688 (TRT)  
248423 (RCA)  
64145 (WUI) or  
82987 (FTCC)

For the Borrower:

Banco Nacional de Desenvolvimento  
Economico e Social  
Av. Republica do Chile 100  
20139 Rio de Janeiro, R.J.  
Brazil

Cable address:

BADEC-BR  
Rio de Janeiro,  
Brazil

Telex:

0213389  
BNDE-BR

With copies to:

DEAIN  
Departamento de Assuntos Internacionais  
Ministerio da Economia, Fazenda e Planejamento  
Esplanada dos Ministerios - Bloco "K" - 5o andar  
70063 Brasilia, D.F.  
Brazil

Telex:

0611146

Telefacsimile:

0612254022

IN WITNESS WHEREOF the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain

Regional Vice President  
Latin America and the Caribbean

BANCO NACIONAL DE DESENVOLVIMENTO  
ECONOMICO E SOCIAL

By /s/ Eduardo Marco Modiano  
Pedro Luiz Bodin de Moraes

Authorized Representatives

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) Goods and works	299,500,000	100% of foreign expenditures and 50% of local expenditures financed under Sub-loans
(2) Technical assistance under Part B of the Project	500,000	100%
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TOTAL	US\$300,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made from the Loan Account:

(a) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement;

(b) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$30,000,000, may be made on account of payments made for expenditures before that date but after January 1, 1990; and

(c) in an aggregate amount equivalent to more than \$15,000,000, in respect of any Sub-loan.

4. Unless the Bank shall otherwise agree, withdrawal applications shall be consolidated so as to apply for withdrawal of aggregate amounts from the Loan Account of not less than the equivalent of \$500,000.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (i) to assist the Borrower in financing such privately owned or operated productive facilities and resources in Brazil as will contribute to the economic and social development of the country; (ii) to support the Borrower's efforts to reorient its operations to the private sector and reduce its exposure to the public sector; (iii) to support the Borrower's reorganization which is designed to reduce the Borrower's directed credit lines and to finance financially and economically sound projects; and (iv) to support the Borrower's programs to strengthen its credit policies and procedures, to develop indicators of international competitiveness and to develop the capability and procedures for operational performance auditing.

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:

Financing Investment Projects through Sub-loans to Investment Enterprises.

Part B:

A training program to: (i) improve the Borrower's credit policies and procedures; (ii) support the Borrower's program to develop indicators of international competitiveness for industrial sectors; and (iii) develop the Borrower's capability and procedures for operational performance auditing.

\* \* \*

The Project is expected to be completed by June 30, 1993.

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 15 and November 15 beginning May 15, 1996 through November 15, 2005	15,000,000

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\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

#### Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:

Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 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

##### Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

- (1) The last sentence of Section 3.02 is deleted.
- (2) The words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in paragraph 2 (c) of Schedule 5 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under subparagraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

#### SCHEDULE 5

##### Procedures for and Terms and Conditions of Sub-loans

##### Terms and Conditions Applicable to Sub-loans

1. No expenditures for goods or works required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:
  - (a) the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than 180 days prior to the date on which the Bank shall have received the application and information required under paragraph 2 (a) of this Schedule in respect of such Sub-loan; or
  - (b) the Sub-loan for such Investment Project shall have been a Free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than 180 days prior to the date on which the Bank shall have received the request and information required under paragraph 2 (b) of this Schedule in respect of such Free-limit Sub-loan. For the purposes of this Agreement, a Free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$5,000,000 equivalent.

2. (a) When presenting a Sub-loan (other than a Free-limit Sub-loan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Investment Enterprise, including information on its management and financial condition, sources and uses of funds, sensitivity analysis and financial internal rates of return; (ii) an appraisal of the Investment Project, which shall include a description of the expenditures proposed to be financed out of the proceeds of the Loan and the procurement procedures to be adopted, an analysis of the economic and social aspects, economic rates of return and employment effect of the Investment Project, an environmental impact assessment of the Investment Project and the collateral, if any, for the Sub-loan; (iii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iv) such other information as the Bank shall reasonably request;

(b) each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a Free-limit Sub-loan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor; and

(c) applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank: (i) together with an assessment by the Borrower that the Investment Enterprise and the Financial Intermediary (if applicable) meet the creditworthiness criteria set forth in the Statement of Policy; and (ii) on or before June 30, 1993.

3. Sub-loans shall be made on terms whereby the Borrower or the Financial Intermediary, as the case may be, shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including, in the case of any Sub-loan the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and works to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 6 to this Agreement; and (ii) such goods and works shall be used exclusively in the carrying out of the Investment Project;

(c) 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 the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) 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 Investment Enterprise and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with the Borrower or the Financial Intermediary, as the case may be.

## Procurement and Consultants Services

### Section I. Procurement of Goods and Works

#### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts for goods estimated to cost the equivalent of \$5,000,000 or more and contracts for works estimated to cost the equivalent of \$10,000,000 or more shall be grouped in bidding packages so as to permit international competitive bidding.

#### Part B: Preference for Domestic Manufacturers

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

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

2. After evaluation, responsive bids will be classified in one of the following two groups:

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

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

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

4. If, as a result of the comparison under paragraph 3 above, the lowest evaluated bid is a bid from group B, all group B bids shall be further compared with the lowest evaluated bid from group A after adding: (i) to the evaluated bid price of goods to be imported in each group B bid an amount equal to the smaller of: (A) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in such group B bid; or (B) 15% of the c.i.f. bid price of such goods; and (ii) to the ex-factory bid price of goods supplied domestically offered in each group B bid an amount equal to the smaller of: (A) the amount of customs duties and other import taxes which would be levied on the goods offered in such group B if they originated from the same foreign country as the bid included in group B which enjoys the lowest customs duties and other 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 3 above, shall be selected for the award.

#### Part C: Other Procurement Procedures

1. Works estimated to cost less than the equivalent of \$10,000,000 may be procured under contracts awarded in accordance with established commercial practices acceptable to the Bank.

2. Goods estimated to cost less than the equivalent of \$5,000,000 but more than the equivalent of \$3,000,000 may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers, of which at least two shall be foreign suppliers, eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Goods estimated to cost the equivalent of \$3,000,000 or less may be procured under contracts awarded in accordance with established commercial practices acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) The procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply to all contracts. Where payments for such contracts are to be made out of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 7 to this Agreement.

(b) The provisions of the preceding subparagraph (a) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Part E: Other

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

Section II. Employment of Consultants

In order to assist the Borrower in carrying out Part B of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

#### SCHEDULE 7

Special Accounts: CESA and FESA

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) and (2) 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, works and services required for Investment Projects and for Part B of 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 Schedule 1 to this Agreement, provided, however, that notwithstanding the provisions of paragraph 2 (b) of Schedule 5 to this Agreement, payments for expenditures to be financed out of the proceeds of Free-limit Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as Eligible Expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$40,000,000 to be withdrawn from the Loan Account and deposited into CESA and FESA (\$35,000,000 equivalent into CESA and \$5,000,000 equivalent into FESA) pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of CESA and FESA, as the case may be, shall be made exclusively for Eligible Expenditures in accordance with the provisions of Section 2.02 of this Agreement and of this Schedule. The Central Bank, or the Account Bank, as the case may be, shall authorize withdrawals from CESA or FESA, as the case may be, on the basis of evidence that the Bank shall have reasonably determined. For each such withdrawal so authorized, the Central Bank, or the Account Bank, as the case may be, shall debit or cause to be debited, CESA or FESA, as appropriate, with the dollar equivalent of the amount of the Eligible Expenditures in question in Cruzeiros, in the case of CESA, or the actual dollar amount, or the dollar equivalent of the Eligible Expenditures in currencies other than dollars or Cruzeiros, in the case of FESA.

3. After the Bank has received evidence satisfactory to it that CESA and FESA have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish CESA or FESA 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 into CESA or FESA, as the case may be, such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of CESA or FESA, the Borrower shall furnish to the Bank requests for deposits into CESA or FESA 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 CESA or FESA, as the case may be, 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 CESA or FESA, as the case may be, 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 CESA or FESA, as the case may be, 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 CESA or FESA:

(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 be equal to 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 CESA or FESA, as the case may be, 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 either CESA or FESA: (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 CESA or FESA as the case may be (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 CESA or FESA 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 either CESA or FESA 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 CESA or FESA.

(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.

