

CONFORMED COPY

LOAN NUMBER 2863 BR

(Northeast Rural Development Project - Alagoas)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 20, 1987
as Amended

LOAN NUMBER 2863 BR

LOAN AGREEMENT

AGREEMENT, dated July 20, 1987, between FEDERATIVE REPUBLIC OF BRAZIL (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS (A) the Borrower has requested the Bank to assist in the financing of the Project described in Schedule 2 to this Agreement by making the Loan as hereinafter provided;

(B) the Project will be carried out in part by the State of Alagoas with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the State of Alagoas part of the proceeds of the Loan as hereinafter provided; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to make the Loan available to the Borrower upon the terms and conditions set forth hereinafter and in the Project Agreement of even date herewith between the Bank and the State of

Alagoas;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "State" means the State of Alagoas;
- (b) "Project Agreement" means the agreement between the Bank and the State of Alagoas of even date herewith, as the same may be amended from time to time, and such term includes all schedules to the Project Agreement and all agreements supplemental to the Project Agreement;
- (c) "SUDENE" means the Superintendencia de Desenvolvimento do Nordeste, the regional coordinator of the Northeast Rural Development Program (as such term is hereinafter defined);
- (d) "CEPA-AL" means Fundacao Estadual de Planejamento Agricola de Alagoas, a foundation of the State created by State Law No. 4121, dated December 26, 1979, and linked to the Secretaria de Agricultura of the State and designated by the State, pursuant to Decree No. 6625 of the State published in the Official Gazette of the State on October 18, 1985, as agency for coordination and supervision of the Project;
- (e) "Northeast Rural Development Program" or "Program" means the Programa de Apoio ao Pequeno Produtor Rural, established by Decree 91.178 of the Borrower, and regulated by Decree 91.179 of the Borrower, both dated April 1, 1985;
- (f) "Executing Entities" means the executing entities in charge of the carrying out of the Project;
- (g) "Special Account" means the account to be opened and thereafter maintained by the Borrower pursuant to Section 2.02 (b) of this Agreement;
- (h) "Central Bank" means Banco Central do Brasil;
- (i) "Cruzeiro" means the currency of the Borrower;
- (j) "Participating Agreement" means any of the agreements referred to in Section 3.01 (e) of this Agreement;
- (k) "Participating Bank" means Banco do Brasil, Banco do Nordeste do Brasil, Banco do Estado de Alagoas, and any other bank that has entered into a Participating Agreement with the Borrower, for purposes of participating in the credit programs included under Parts D and H of the Project as amended from time to time;
- (l) "MCR" means Manual de Normas e Instrucoes de Credito Rural issued by the Central Bank, as amended from time to time;
- (m) "Subloan" means a loan made or proposed to be made partially out of the proceeds of the Loan by a Participating Bank to a Beneficiary (as such term is hereinafter defined) under Parts D and H of the Project for the financing of the investments and associated working capital under Subprojects (as such term is hereinafter defined);
- (n) "Beneficiary" means an agricultural household or, for the purposes of carrying out Part H of the Project, an Associacao (as such term is hereinafter defined), benefitting from the activities included in Parts A through H of the

Project, that, in the case of an agricultural household, operates an area that in the aggregate does not exceed one hundred (100) hectares (or any larger area as the Bank may otherwise agree, if included in a specific proposed Subproject, as such term is hereinafter defined), and that derives its main income from such operation;

(o) "Funding Regulation" means any regulation issued by the Borrower for the purposes of Section 3.01 (c) (i) of this Agreement;

(p) "FSRMM" means Adicional ao Frete para a Renovacao da Marinha Mercante - AFRMM, the Borrower'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 in part, after January 1, 1988;

(q) "Subproject" means a specific Subproject to be carried out in the State under Part H of the Project;

(r) "SDR" means Secretaria do Desenvolvimento Regional, the Secretariat of Regional Development of the Borrower's Presidency;

(s) "DTN" means Departamento do Tesouro Nacional, the Borrower's treasury department within the Borrower's Ministry of the Economy, Finance and Planning;

(t) "Associacao" means a group of agricultural households which is legally constituted in accordance with the Brazilian Civil Code and such term includes cooperatives or any other form of organization acceptable to SUDENE and the State and satisfactory to the Bank; and "Associacaes" means more than one "Associacao";

(u) "Provisional Execution" means the initial execution of a Subproject by a private or public entity designated by CEPAL, or by such entity jointly with an Associacao, for the purposes of subsequently transferring to an Associacao the execution of a Subproject, as referred to in paragraph 2 of Schedule 1 to the Project Agreement;

(v) "Small Productive Community Investments" means investments for agricultural and agroprocessing purposes made by groups of individual Beneficiaries, partially financed with the proceeds of the Loan, limited to \$75,000 equivalent or less per investment (or any larger amount as the Bank may otherwise agree, if included in a specific proposed Subproject), including the working capital required for the first year of each such investment, but excluding the contribution to be made by any such Beneficiaries, if any, provided, however, that the agricultural household benefitting from one or more investments shall not receive more than \$1,000 equivalent of such investment;

(w) "Small Rural Infrastructure Investments" means such investments in local infrastructure as shall be necessary to achieve the objectives of a Subproject, partially financed with the proceeds of the Loan;

(x) "TRD" means Taxa Referencial Diaria, the rate of interest established by Law No. 8.177, dated March 1, 1991, calculated in accordance with criteria determined by the Central Bank, from time to time, or any other rate to be established by the Borrower to substitute the TRD;

(y) "ITERAL" means Instituto de Terras do Estado de Alagoas, the State's land institute, under the State's Secretariat of Agriculture;

(z) "POA" means the annual plan of operation for the financing of the activities carried out under the Project, referred to in Section 3.03 (a) of this Agreement and Section 2.01 (d) of the Project Agreement; and

(aa) "Amending Agreement" means the agreement amending the Loan and Project Agreements (Northeast Rural Development Project - Alagoas) between the Bank and the Borrower and the State, respectively, as per letter dated _____, 1992, from the Bank to the Borrower and the State.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to forty-two million dollars (\$42,000,000).

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 services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and thereafter maintain in the Central Bank a Special Account in dollars, on terms and conditions satisfactory to the Bank. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 1996 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 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 the purposes of this Section:

(i) "Interest Period" means a 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 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 cause (i) SDR to coordinate (at the federal level) and issue guidelines related to the carrying out of the Program, to propose annual budgets for such Program and to take all actions necessary to ensure the availability of the counterpart funds for the carrying out of such Program in a timely manner; (ii) SUDENE to coordinate (at the regional level), supervise and monitor the Program; and (iii) the Participating Banks, through Participating Agreements, to carry out the credit program included in Parts D and H of the Project; all with due diligence and efficiency, in accordance with appropriate

administrative, financial and agricultural practices.

(b) Without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause the State, under contractual arrangements satisfactory to the Bank, to perform in accordance with the provisions of the Project Agreement, all the respective obligations of the State therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the State to perform its obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) Without limitation to its obligations under paragraph (a) above, the Borrower shall: (i) take all action as shall be required to regulate, in a manner satisfactory to the Bank, the funding procedures which will ensure that the Executing Entities shall have the funds required for carrying out the Project available to them in a timely manner; and (ii) provide or cause SUDENE to provide, advances in Cruzeiros into the account opened and operated by the State, as referred to in Section 2.01 (h) of the Project Agreement, in a timely manner and in sufficient amounts for the purpose of financing the activities under the Project, as provided in each POA.

(d) The Borrower shall make the proceeds of the Loan allocated for purposes of the Project available to the State under arrangements satisfactory to the Bank.

(e) The Borrower, through DTN, shall enter into agreements, satisfactory to the Bank, with each of the Participating Banks, providing for the Participating Bank to:

(A) on-lend the proceeds of the Loan allocated for purposes of the credit programs included in Parts D and H of the Project in accordance with:

1. the terms and conditions set forth in Schedule 5 to this Agreement; and
2. to the extent that they are compatible with the provisions of Schedule 5 to this Agreement, the lending policies and procedures set forth in the MCR applicable to the Program;

(B) allocate on a priority basis, adequate funds for the financing of working capital (custeio) needs of the Beneficiaries;

(C) maintain separate accounts and records adequate to record and monitor the progress of the credit programs under Parts D and H of the Project;

(D) undertake to provide monthly information to SUDENE and CEPA-AL, on credit availability (including working capital credit), the demand for working capital credit and for credit under Parts D and H of the Project and the preceding month's lending performance of the Participating Bank in the area where Subprojects are carried out;

(E) furnish to the Bank, through DTN, at regular intervals, all such information as the Bank shall reasonably request concerning the performance of the Participating Bank in the carrying out of the credit programs included in Parts D and H of the Project, the Subloans, the Beneficiaries, the expenditure of the proceeds of the Loan, the goods and services financed out of such proceeds and the repayment performance of Beneficiaries; and

(F) exercise its rights in relation to each Subproject in such manner as to: (i) protect the interest 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.

(f) Unless the Bank shall otherwise agree, the Borrower shall not amend, abrogate or waive the provisions of the MCR applicable to the Program.

(g) Without limitation to its other obligations under this Section, the Borrower shall provide the funds necessary to finance the costs of any subsidies related to the terms of onlending referred to in paragraph (e) above, such funds to be allocated for such purpose from the federal budget (Orcamento da Uniao).

(h) The Borrower shall, by not later than June 30, 1993, review, together with the Bank and SUDENE, the Program, in accordance with terms of reference satisfactory to the Bank, and shall, immediately thereafter, if recommended by such review, amend the Program, taking into account such recommendations.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the carrying out of the Project and to be financed out of the proceeds of the Loan shall be made in accordance with the provisions of Schedule 2 to the Project Agreement.

Section 3.03. (a) The Borrower shall: (i) furnish to the Bank by October 31 in each year, for its review and comment, the proposed POA and budget for the Project and for the Northeast Rural Development Program for the following fiscal year; (ii) afford the Bank a reasonable opportunity to comment on any modifications the Borrower may intend to introduce to such proposed POA and budget; and (iii) furnish to the Bank by January 1 in each year the administrative regulation approving the POA for the fiscal year which is being initiated on such date and by March 15 in each year the final approved version of such budget.

(b) The Borrower shall furnish to the Bank for its review and comments any proposed changes to the planning and budgeting procedures established for the carrying out of the Northeast Rural Development Program.

Section 3.04. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out, or caused to be carried out, by the State.

ARTICLE IV

Other Covenants

Section 4.01. The Borrower shall: (i) have 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; (iii) furnish to the Bank monthly certified statements of the Special Account; and (iv) furnish to the Bank such other information concerning the Special Account and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. (a) The Borrower shall maintain, through DTN, and cause the Central Bank to maintain, or cause to be maintained, separate accounts and records adequate to reflect in accordance with consistently maintained appropriate accounting practices its operations, resources and expenditures in respect of Subloans under Parts H and D of the Project, respectively, including, without limitation to the foregoing, separate accounts reflecting all expenditures on account of which withdrawals are requested from the Loan Account on the basis of statements of expenditures.

(b) The Borrower shall retain and cause the Central Bank to retain, or cause to be retained, until one year after the Closing Date, copies of all records and documents evidencing the expenditures on account of which withdrawals are requested from the Loan Account in respect of Subloans under Parts H and D of the Project, respectively, on the basis of statements of expenditure, and shall enable the Bank's representatives to examine such records.

Section 4.03. The Borrower shall:

(a) cause the accounts referred to in Section 4.02 (a) above for each fiscal year to be audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (i) certified copies of the accounts referred to in Section 4.02 (a) above as so audited; and (ii) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested, including, without limitation to the foregoing, separate opinions by said auditors in respect of the expenditures and records referred to in Section 4.02 (b) of this Agreement, as to whether the proceeds of the Loan made available to it and withdrawn from the Loan Account on the basis of statements of expenditure have been used for the purpose for which they were provided; and

(c) furnish to the Bank such other information concerning the accounts referred to in Section 4.02 (a) of this Agreement, as well as the audit thereof, as the Bank shall from time to time reasonably request.

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 the State shall have failed to perform any of its obligations under the Project Agreement;

(b) that the lending policies and procedures set forth in the MCR which are applicable to Subloans, including the utilization of the TRD, have been amended in a way which may adversely affect the execution of Parts D and H of the Project or the accomplishment of the purposes of the Loan;

(c) that any Funding Regulation shall have been amended, suspended, abrogated, repealed or waived, or the Borrower shall have failed to apply the procedures thereof in such a way as to materially and adversely affect the execution of the Project;

(d) that the Borrower shall have failed to make, or have caused SUDENE to make, the advances referred to in Section 3.01 (c) (ii) of this Agreement;

(e) that any action shall have been taken for the dissolution, disestablishment or suspension of the operation of SUDENE, or any Executing Entity, including CEPA-AL, or CEPA-AL's by-laws shall have been amended, suspended, abrogated, repealed or waived, so as to materially and adversely affect the execution of the Project; and

(f) that any of the arrangements referred to in Section 3.01 (d) of this Agreement or any of the Participating Agreements shall have been amended, suspended, abrogated, repealed or waived, in such a way as to materially and adversely affect the execution of the Project.

Section 5.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified pursuant to paragraph (h) thereof, namely, that the events specified in Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the State.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

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

(b) that the State has established and staffed the unit referred to in subparagraph (e) of Section 2.01 of the Project Agreement and has established the state council referred to in such subparagraph in accordance with the provisions of such Section.

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) in respect of the legal opinion to be provided on behalf of the State, that the Project Agreement has been duly authorized or ratified by the State, and is legally binding upon the State in accordance with its terms;

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

(c) that all necessary acts, consents, and approvals to be performed or given by the Borrower, the State, their political subdivisions or agencies, or any agency of such political subdivisions, or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Borrower and the State to perform all of their obligations pursuant to this Agreement and the Project Agreement, together with all necessary powers and rights in connection therewith, have been performed or given.

Section 6.03. The date October 20, 1987, 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 Economy, Finance and Planning 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:

Procuradoria Geral da Fazenda Nacional
Ministerio da Economia, Fazenda e Planejamento
Esplanada dos Ministerios, Bloco "P" - 8o andar
70048 Brasilia, D.F.
Brazil

Cable address:

MEFP
Brasilia, Brazil

Telex:

61-1506 MFAZ BR

With copies to:

(i) Departamento do Tesouro Nacional
Ministerio da Economia, Fazenda e Planejamento
Esplanada dos Ministerios, Bloco "P" - Anexo-1o andar
70048 Brasilia, D.F.
Brazil

Telex:

61-1008

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

Brazil

Telex:

61-2207

(iii) Departamento de Desenvolvimento Regional
Secretaria do Desenvolvimento Regional da
Presidencia da Republica
Esplanada dos Ministerios, Bloco "E" - 7o andar
70062 Brasilia, D.F.
Brazil

Telex:

61-2509

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)

IN WITNESS WHEREOF, the parties hereto, acting through their representative thereunto duly authorized, have caused this Agreement to be signed in their respective names in Brasilia, Brazil, as of the day and year first above written.

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Luiz Carlos Bresser Pereira

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jan Wijnand

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Amount of the Loan Allocated (Expressed in	% of Expenditures
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Category	Dollar Equivalent)	to be Financed
(1) Goods, works, consultants' services, salaries and operating costs under Part A of the Project	903,799.37	70%
(2) Goods, works and consultants' services, under Part B of the Project	1,800,000.00	50%
(3) Goods, works, salaries and operating costs under Part C of the Project	2,800,000.00	50% for expenditures incurred until the date of the Amending Agreement
(4) (a) Subloans under Part D of the Project	345,916.38	50% of expenditures financed under Subloans
(b) Subloans under Part H of the Project	7,500,000.00	70% of expenditures financed under Subloans
(5) Goods, works and services under Part E of the Project	245,602.72	50%
(6) Grants, salaries and operating costs under Part F of the Project	2,700,000.00	70% for expenditures incurred until the date of the Amending Agreement
(7) Under Part G.1 of the Project:	3,000,000.00	
(a) for goods, services and operating costs; and		50% for expenditures incurred until the date of the Amending Agreement
(b) for other goods, services and operating costs		30% of expenditures incurred after the date of the Amending Agreement
(8) Goods and services under Part G.2 of the Project	500,000.00	50%
(9) Studies and consultants' services under Part G.3 of the Project	1,800,000.00	100%
(10) Expenditures under	18,000,000.00	

Part H of the Project (other than Subloans)		
(a) for goods		100% of foreign expenditures and 55% of local expenditures
(b) for works and services		55%
(11) Goods and services under Part I of the Project (excluding salaries)	500,000.00	50%
(12) Unallocated	1,904,681.53	
	<hr/>	
TOTAL	42,000,000.00	=====

2. For purposes of this Schedule:

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

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

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

(a) 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 \$2,000,000, may be made on account of payments made for expenditures (other than for Part D of the Project) before that date but after December 18, 1986 and except that withdrawals, in an aggregate amount not exceeding the equivalent of \$450,000, may be made on account of payments made prior to the date of the Amending Agreement, but after October 1, 1991, for expenditures made under Categories (9) and (11); and

(b) in respect of expenditures under Category (4) and (10) of the table, in paragraph 1 above unless the Bank and SUDENE shall have approved the respective Subproject, and, in respect to Category (10) of such table, unless CEPA-AL shall have also approved the respective contract for goods, works and services to be financed under such Category.

4. Notwithstanding the disbursement percentages set forth in the table in paragraph 1 above, said percentages may be adjusted by the Bank, from time to time, in order to reflect a total participation of the Bank in the financing of the Project of not more than 60% of total Project costs, excluding taxes.

SCHEDULE 2

Description of the Project

The Project is part of the Borrower's Northeast Rural Development Program and its basic objectives are: (i) to improve the standard living, income and employment opportunities for low-income small farmers; and (ii) to increase agricultural production and productivity. To achieve those basic objectives the Project will focus on the promotion of water resource development and technology generation and diffusion

in the State; and the strengthening of the state's institutional capacity to provide efficient agricultural services to small farmers.

The Project consists of:

Part A: Water Resource Development

Construction of about 180 simple water supply systems and rehabilitation of 20 systems in communities with less than 500 inhabitants.

Part B: Agricultural Research and Basic Seed Production

A program to redirect research efforts within the State toward improved adaptation of low-cost technologies for small farmers, in order to meet the specific needs of the Subprojects, such program to include, inter alia:

- (i) three agro-ecological and natural resources studies to assist in future research planning;
- (ii) about 80 short- and medium-term applied research trials to improve crop production technology;
- (iii) establishment of about 16 farm-level observation units to test and adapt integrated farm production systems;
- (iv) production of basic seeds on about 25 hectares including, inter alia, cotton, maize, beans, and rice;
- (v) production and distribution of improved breeding goats;
- (vi) training of technical assistance agents in new or improved agricultural technologies; and
- (vii) acquisition and utilization of vehicles and equipment, recruitment of personnel, and training thereof, to meet the requirements of the research activities included in Part B of the Project.

Part C: Rural Extension Services

A technical assistance program, to reach about 16,000 Project Beneficiaries, to increase farm productivity and resistance to drought conditions, including, inter alia:

- (i) equipping of about 11 local offices;
- (ii) establishment of about 200 demonstration plots and farms;
- (iii) appointment of about 100 agricultural and social extension agents, about 10 specialists and supervisory personnel and about 80 administrative staff;
- (iv) a small-scale forestry program, including the production of about 21,900 tree seedlings; and
- (v) acquisition and utilization of vehicles and equipment to meet the requirements of the expanded extension system.

Part D: Agricultural Credit

A program of medium- and long-term Subloans for about 200 Project Beneficiaries to finance on-farm investments, excluding investments in sugarcane plantations, automobiles and irrigation schemes larger than 4 hectares per individual farm.

Part E: Marketing Services

A program to improve marketing information for farmers, and marketing infrastructure in the area where the Project is carried out, including, inter alia:

- State; (i) expansion of the marketing information services provided by the
- of the (ii) installation of mobile units for grading and classification in 2 State's rural service centers; and
- (iii) production and distribution of certified seeds.

Part F: Support to Small Rural Communities

A program to promote Beneficiary participation and organization in the execution of the Project, including, inter alia:

- (i) establishment of a community development fund to finance on a grant basis community investments in: (a) training and legal assistance on land matters, (b) agricultural and other local development subprojects, and (c) infrastructure; and
- (ii) appointment, by hiring or transfer from governmental agencies, of about 30 full-time community development agents and acquisition and utilization of vehicles and equipment required by such agents.

Part G: Project Management and Training

1. Establishment and operation of the CEPA-AL.
2. Carrying out of a program, including, inter alia:
 - (a) provision of training aimed at improving planning, management and administration skills of the staff of Asociacaes and of CEPA-AL, related to the carrying out of the Project;
 - (b) the promotion of the participation of Beneficiaries in the execution of the Project and the organization of agricultural households into Asociacaes;
3. Provision of technical assistance to CEPA-AL to strengthen its capabilities in administering the Project, including: (a) identification, planning and preparation of Subprojects, in cooperation with the Beneficiaries; (b) coordination, supervision and monitoring of the carrying out of the activities under the Project; and (c) monitoring and ex-post evaluation of Subprojects.

Part H: Subprojects

Carrying out of Subprojects through, or on behalf of Asociacaes, designed to increase the net income of Beneficiaries in the State, on a sustainable basis, and the provision of Subloans to Beneficiaries for the financing of agricultural and agroprocessing investments and working capital under a Subproject.

Part I: Land Tenure Improvement

The completion of on-going surveying, mapping, cadaster and land titling activities to be carried out by the State's Land Institute (ITERAL), under contracts with CEPA-AL.

* * *

The Project is expected to be completed by September 30, 1995.

SCHEDULE 3

Amortization Schedule

Date of Payment Due	Payment of Principal (Expressed in dollars)*
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On each March 15 and September 15

beginning March 15, 1991
through September 15, 2002 1,750,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal; see General Conditions, Section 3.04.

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.04 (b) of the General Conditions:

Time of Prepayment percentage	Premium The interest rate (expressed as a 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

Special Account

1. For the purposes of this Schedule:

(a) the term "Categories" means, collectively, Category (1) through (11) as set forth in the table in paragraph 1 of Schedule 1 to this Agreement and the term "Category" means any one of them;

(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 Categories in accordance with the provisions of, and in the percentages set forth in, the table in paragraph 1 of Schedule 1 to this Agreement; and

(c) the term "Initial Deposit" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 of this Schedule.

2. Withdrawals from the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule. For each such withdrawal, the Central Bank shall debit the Special Account with the dollar equivalent of the amount in Cruzeiros or any currency other than dollars, determined on the basis of the rate of exchange between the dollar and the Cruzeiro or such other currency in effect at the date the payment for each Eligible Expenditure shall have been made.

3. The Bank shall, promptly after the Effective Date, withdraw on behalf of the Borrower from the Loan Account and deposit into the Special Account the Initial Deposit. Thereafter and on the basis of requests by the Borrower furnished to the Bank at such intervals as agreed between the Borrower and the Bank, the Bank shall further so withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts equal to payments made out of the Special Account for Eligible Expenditures, but only to the extent that the amount of any such deposit, together with any amount remaining on deposit in the Special Account as of the date of such request, shall not exceed in the aggregate the equivalent of the Initial Deposit. Except as the Bank may otherwise agree, each such deposit after the Initial Deposit shall be withdrawn by the Bank from the Loan Account under the respective Category or Categories, 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. Prior to or at the time of each such request by the Borrower for a deposit by the Bank into the Special Account after the Initial Deposit, the Borrower shall furnish to the Bank in respect of each payment made by the Borrower out of the Special Account such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for Eligible Expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, any request for a further deposit into the Special Account may be denied by the Bank (a) when the Bank shall have determined, after consultation with the Borrower, that all further withdrawals can be made directly by the Borrower from the Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement, or (b) when the total unwithdrawn amount of the Loan allocated to the Categories minus the amount of any outstanding qualified agreement to reimburse entered into by the Bank and of any outstanding special commitment made by the Bank pursuant to Section 5.02 of the General Conditions, with respect to the Categories, shall be equal to the equivalent of twice the amount of the Initial Deposit. Withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the Categories shall follow such procedures as the Bank shall specify by notice to the Borrower and shall, except as the Bank shall otherwise agree, be made only after and to the extent the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice have been or will be utilized in making payments for Eligible Expenditures.

6. If the Bank shall have determined at any time that:

(a) any payment out of the Special Account: (i) was made for any expenditure

or in any amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank and, unless otherwise agreed by the Bank, prior to any further deposit into the Special Account by 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; or

(b) 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, and unless otherwise agreed by the Bank, refund to the Bank such amount then outstanding in the Special Account.

7. Notwithstanding the provisions regarding the Initial Deposit set forth in paragraph 3 of this Schedule, the Bank may, at the request and by notice to the Borrower, increase the amount of the Initial Deposit to adjust the level of the Special Account to the disbursement requirements of the Project.

SCHEDULE 5

Terms and Conditions of Subloans

1. Subloans shall be made to Beneficiaries for investments and for initial working capital (custeio) associated with such investments.

2. Subloans shall be subject, inter alia, to the following terms and conditions:

(a) bear an interest on the outstanding balance at the rate of nine percent (9%) per annum, or such other rate as the Bank shall otherwise agree;

(b) be repayable over no more than fifteen years, including a grace period of no more than four years;

(c) the repayment and grace periods for each Subloan shall be determined by the Participating Bank on the basis of cash flow projections for the respective investment to be financed under any such Subloan; and

(d) the outstanding principal of each Subloan (as reduced, if applicable, in accordance with paragraph 3 below) shall be adjusted monthly to reflect the variations in the TRD for each respective month.

3. The outstanding principal of a Subloan to a Beneficiary who is an agricultural household may be reduced by thirty percent (30%), subject to the provision that such reduction may be applied only to one Subloan per Beneficiary, provided, however, that such reduction shall not apply to Subloans made for the purposes of agricultural marketing or for the processing of agricultural products.

4. Participating Agreements shall contain provisions permitting the Participating Bank to charge a spread of no less than four percentage points on the principal amount of the Subloan, after any reduction in accordance with paragraph 3 above, or any other spread as the Bank shall otherwise agree.

5. Associacaes shall be eligible for Subloans under Part H of the Project only if at least seventy percent (70%) of its members are considered Beneficiaries (in accordance with the definition contained in Section 1.02 (n) of this Agreement) who would benefit directly from the expenditures to be financed out of a Subloan.

