

CONFORMED COPY

LOAN NUMBER 2975 BR

(Rio Flood Reconstruction and Prevention Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

CAIXA ECONOMICA FEDERAL - CEF

Dated September 29, 1988

LOAN NUMBER 2975 BR

LOAN AGREEMENT

AGREEMENT, dated September 29, 1988, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CAIXA ECONOMICA FEDERAL - CEF (the Borrower).

WHEREAS (A) 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;

(C) the Project will be carried out by the State of Rio de Janeiro (the

State), the Municipality of Rio de Janeiro (Rio) and the Municipalities (as such term is hereinafter defined), with the Borrower's financial assistance and, as part of such assistance, the Borrower will make available to the State, Rio and the Municipalities 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, 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Municipalities" means collectively the following Municipalities of the State: Nilopolis, Sao Joao de Meriti, Nova Iguacu, Duque de Caxias, Mage and Petropolis, and the term "Municipality" means any one of them;

(b) "GEROE" means Grupo Executivo para Recuperacao e Obras de Emergencia, the Executive Group for Reconstruction and Emergency Works established by the State's Decree No. 11,131 of March 30, 1988;

(c) "CEF Loans" means the loans totalling about \$190,100,000 equivalent made and to be made by the Borrower to the State and Rio for purposes of the Project to be disbursed in accordance with Section 3.01 (d) of this Agreement;

(d) "CEF Loan Agreements" means the loan agreements between the Borrower and the State or Rio, as the case may be, providing for the CEF Loans;

(e) "Cruzado" means the currency unit of the Guarantor;

(f) "Central Bank" means Banco Central do Brasil;

(g) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(h) "State Project Agreement" means the agreement of even date herewith between the Bank and the State, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the State Project Agreement;

(i) "Rio Project Agreement" means the agreement of even date herewith between the Bank and Rio, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Rio Project Agreement;

(j) "State SLA" means the loan agreement between the State and the Borrower referred to in Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the State SLA;

(k) "Rio SLA" means the loan agreement between Rio and the Borrower referred to in Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Rio SLA;

(l) "Municipal SLA" means each of the agreements to be entered into between the State and each Municipality for purposes of the Project pursuant to Section 2.05 of the State Project Agreement;

(m) "State-Rio Convenio" means the agreement between the State and Rio referred to in Section 7.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the State-Rio Convenio;

(n) "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 part, after January 1, 1988;

(o) "OTN" means National Treasury Bonds, Obrigacoes do Tesouro Nacional, transferable bonds issued by the Guarantor's Treasury;

(p) "State Operational Manual" means the manual of operating policies and procedures, satisfactory to the Bank and the Borrower, issued (and approved by) the State for purposes of Parts A and C of the Project in August 1988, as the same may be amended from time to time;

(q) "Rio Operational Manual" means the manual of operating policies and procedures, satisfactory to the Bank and the Borrower, issued (and approved by) Rio for purposes of Part B of the Project in August 1988, as the same may be amended from time to time;

(r) "State Financial Action Program" means the program of actions, contained in a letter from the State to the Bank, dated June 8, 1988, aimed at increasing state revenues and reducing non-essential expenditures by means of specific actions, including implementation of full cost recovery for water supply and sewerage services in compliance with the Tariff Law, introduction of user charges for solid waste services and improvement of the financial management for maintenance of the drainage system;

(s) "Rio Financial Action Program" means a program of actions, contained in a letter from Rio to the Bank, dated June 8, 1988, aimed at increasing revenues and reducing non-essential expenditures by means of specific actions including an evaluation of the budgeting and accounting systems of Rio, property tax assessments, measures to improve tax collection, and adjustments of tariffs to recover the full cost of solid waste services;

(t) "Eligible Subproject" means a specific investment project to be carried out under Parts A.2, A.3, A.4 and B.2 of the Project, which meets the technical, financial, economic, institutional and environmental criteria set forth in the State Operational Manual or the Rio Operational Manual, respectively;

(u) "Minimum Wage" means salario minimo de referencia, the minimum reference wage in force in the Federative Republic of Brazil, as published in the Diario Oficial da Uniao;

(v) "Eligible Beneficiary" means the beneficiary or proposed beneficiary of a serviced lot under Parts A.6 and B.4 of the Project, whose total family income does not exceed the equivalent of five Minimum Wages;

(w) "Project Area" means the metropolitan area composed by Rio and the Municipalities;

(x) "Fiscal year" means the fiscal year of the Guarantor which begins on January 1 and ends on December 31 of each year;

(y) "State Resettlement Plan" means the plan, satisfactory to the Bank, issued by the State, for purposes of carrying out the resettlement activities included under Part A.6 of the Project and furnished to the Bank in a letter from the State to the Bank, dated June 23, 1988, as such Plan may be amended from time to time;

(z) "Rio Resettlement Plan" means the plan, satisfactory to the Bank, issued by Rio, for purposes of carrying out the resettlement activities included under Part B.4 of the Project and furnished to the Bank in a letter from Rio to the Bank, dated

June 8, 1988, as such Plan may be amended from time to time;

(aa) "Metropolitan Region of Rio de Janeiro" means the area defined by Article 19 of the Guarantor's Lei Complementar Federal No. 20 of July 1, 1974, consisting of the municipalities of Rio de Janeiro, Duque de Caxias, Sao Joao de Meriti, Nilopolis, Nova Iguacu, Mage, Mangaratiba, Itaborai, Itaguai, Paracambi, Petropolis, Marica, Niteroi and Sao Goncalo, all in the State;

(bb) "STN" means Secretaria do Tesouro Nacional of the Ministerio da Fazenda of the Guarantor; and

(cc) "Tariff Law" means the Guarantor's Law No. 6,528, dated May 11, 1978, published in the Diario Official, as amended to the date of this Agreement.

## 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 one hundred seventy-five million dollars (\$175,000,000).

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 for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of works, 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 maintain in dollars a special account in 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 March 31, 1991 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 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 Guarantor and 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 April 15 and October 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, under the State SLA and Rio SLA, respectively, cause the State and Rio to carry out Parts A and C and Part B of the Project, respectively, and perform in accordance with the provisions of the State Project Agreement and the Rio Project Agreement, their obligations therein set forth, with due diligence and efficiency and in conformity with appropriate engineering, administrative and financial practices, including the provision of funds, facilities, services and other resources necessary or appropriate to enable the State and Rio to perform such obligations, and not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Loan allocated to financing the execution of: (i) Parts A and C of the Project to the State under a subsidiary loan agreement to be entered into between the Borrower and the State (the State SLA); and (ii) Part B of the Project to Rio under a subsidiary loan agreement to be entered into between the Borrower and Rio (the Rio SLA), both agreements under terms and conditions which shall have been approved by the Bank.

(c) The Borrower shall exercise its rights under the State SLA and the Rio SLA in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Guarantor, acting through STN, and the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the State SLA or the Rio SLA or any provision thereof.

(d) Without limitation to the provisions of paragraph (a) of this Section, the Borrower shall make available under the CEF Loans, for purposes of the Project, aggregate amounts, on a cumulative basis, equivalent to not less than \$57,000,000 by not later than August 31, 1988, \$114,000,000 by not later than October 31, 1988, and \$190,100,000 by not later than December 31, 1988.

Section 3.02. 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 by the State and Rio pursuant to Section 2.03 of the State Project Agreement and Section 2.03 of the Rio Project Agreement, respectively.

### ARTICLE IV

#### Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative and financial standards and practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

### ARTICLE V

#### Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate accounts for the Project.

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for

each fiscal year audited, in accordance  
principles consistently applied, by independent  
acceptable to the Bank;

with appropriate auditing  
auditors

(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 its 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 said  
records, accounts and financial statements as well as the audit thereof  
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, in accordance with paragraph (a) of this Section,  
records and accounts reflecting such expenditures;

(ii) retain, or cause the State, Rio and the Municipalities to 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, certified copies of 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 VI

### Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the  
following additional events are specified provided, however, that if any of the  
events specified in paragraphs (a) through (d) below shall have occurred and be  
continuing, and relates only to the State, Rio or one or more Municipalities, the  
suspension of the Borrower's right to make withdrawals from the Loan Account may be  
limited by the Bank to withdrawals in respect of Project expenditures incurred by the  
State, Rio or such Municipality or Municipalities, as the case may be:

(a) The State or Rio shall have failed to perform any of their obligations  
under the State Project Agreement or the Rio Project Agreement, respectively.

(b) As a result of events which have occurred after the date of the Loan  
Agreement, an extraordinary situation shall have arisen which shall make it improbable  
that the State or Rio will be able to perform its obligations under the State Project  
Agreement or the Rio Project Agreement, respectively.

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the State or Rio to withdraw the proceeds of  
the CEF Loans shall have been suspended, cancelled or  
terminated in whole or in part, pursuant to the terms of the  
respective CEF Loan Agreement; or

(B) the CEF Loans shall have become due and payable prior to the  
agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if it is established to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or premature is not caused by the failure of the State or Rio, or both, as the case may be, to perform any of its obligations under such agreements; and (B) adequate funds for the Project are available to the State or Rio, or both, as the case may be, from other sources on terms and conditions consistent with the obligations of the State under the State Project Agreement or of Rio under the Rio Project Agreement, or both, as the case may be.

(d) A Municipality shall have failed to perform any of its obligations under its respective Municipal SLA.

(e) Decree No. 95572 of 1987 of the Guarantor shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) or paragraph (d) of Section 6.01 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 Guarantor and the Borrower and the State or Rio, or both, as the case may be; and

(b) the event specified in paragraph (c) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (c) (ii) of that Section.

#### ARTICLE VII

##### Effective Date; Termination

Section 7.01. 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 duly registered with the Central Bank;

(b) that the State SLA and the Rio SLA have been executed on behalf of the Borrower and the State and the Borrower and Rio, respectively;

(c) that the State has entered into Municipal SLAs providing for at least 75 percent of all loans to be made under the Municipal SLAs; and

(d) that the State and Rio have entered into an agreement, satisfactory to the Bank (the State-Rio Convenio), defining their obligations with respect to the carrying out of the Project (including the role of GEROE) and providing consultation and coordination mechanisms for purposes of the Project.

Section 7.02. 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 State 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 Rio Project Agreement has been duly authorized or ratified by Rio, and is legally binding upon Rio in accordance with its terms;

(c) that the State SLA, the Rio SLA, the State-Rio Convenio and the Municipal SLAs referred to in Section 7.01 (c), have been duly authorized by, and are legally binding upon, the parties thereto; and

(d) that the Loan Agreement has been duly registered with the Central Bank.

Section 7.03. The date December 29, 1988 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The President of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. 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:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

For the Borrower:

Caixa Economica Federal - CEF  
Setor Bancario Sul  
Quadra 4, Lote 34  
CEP 70070, Brasilia, D.F.  
Brasil

Telex:

(061) 1365  
(061) 3864

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/ Everardo Wessels

Acting Regional Vice President  
Latin America and the Caribbean

CAIXA ECONÔMICA FEDERAL - CEF

By /s/ Carlos Eduardo Paes Barreto

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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Part A of the Project (State)		
(a) Works for Parts A.1, A.5 and A.7 of the Project	14,800,000	40%
(b) Works for Parts A.2, A.3 and A.4 of the Project	67,000,000	40%
(c) Works for Part A.6 of the Project	5,300,000	80%
(d) Equipment for Part A.8 of the Project	6,000,000	100% of foreign expenditures
(e) Technical assist- ance and consultants' services for Part A.9 of the Project	2,500,000	100%
(2) Part B of the Project (Rio):		
(a) Works for Parts B.1, B.3 and B.5 of the Project	19,200,000	50%
(b) Works for Part B.2 of the Project	10,300,000	50%
(c) Works for Part B.4 of the Project	13,100,000	80%
(d) Technical assist- ance and consultants' services for Part B.6 of the Project	1,500,000	100%
(3) Part C of the Project (Municipalities):		
Works under Part C of the Project	14,800,000	40%
(4) Unallocated	20,500,000	

TOTAL

175,000,000

2. For the purposes of this Schedule 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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for: (i) expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of \$10,000,000, may be made on account of payments made for expenditures before that date but after March 14, 1988; (ii) expenditures under an Eligible Subproject unless the Bank shall have received a technical, financial, institutional, environmental and economic appraisal, satisfactory to the Bank, of such Eligible Subproject carried out in accordance with the procedures and methodology set forth in the Operational Manual; (iii) expenditures incurred by a Municipality, unless the Bank shall have received evidence satisfactory to the Bank that such Municipality and the State have entered into a valid and binding Municipal SLA concerning the Parts of the Project to which such expenditures are related; and (iv) expenditures in respect of Categories 1.(c) and 2.(c), unless amendments satisfactory to the Bank, to the State Resettlement Plan and the Rio Resettlement Plan shall have been furnished to the Bank by the State and Rio, together with evidence satisfactory to the Bank to the effect that they have been duly issued by the State and Rio, respectively; and (b) after March 31 of each year unless the Bank shall have received evidence, satisfactory to the Bank, that the aggregate disbursements from the CEF Loans during the previous calendar year shall have been at least equal to 75 percent of the amounts set forth in the disbursement schedules of the respective CEF Loan Agreements.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (a) to reconstruct and rehabilitate basic infrastructure in the Project Area damaged by floods in February and March of 1988; (b) to implement physical and institutional preventive measures to reduce the effects of future floods; and (c) to assist the State and Rio in developing a program for responding to future emergencies and natural disasters.

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: State

1. Repaving about 110 kilometers of roads and constructing about 7.5 kilometers of retaining walls and related drainage, as well as reconstruction and repair of about 17 bridges.
2. Execution of Eligible Subprojects for reconstruction, repair and rehabilitation of primary, secondary and tertiary drainage for 8 river systems, by inter alia, dredging canals and rivers and constructing dikes, outfalls and related civil works alongside canals and rivers.
3. Execution of Eligible Subprojects for installation of about 370 kilometers of sewerage, 14,630 sewerage connections, 5 pumping stations and 2 filtering and biological treatment plants for sewerage.
4. Execution of Eligible Subprojects for the construction of about 6 solid waste composting plants.
5. Reforestation of about 30 slopes comprising about 1200 hectares by planting grown saplings.
6. Construction of about 4,000 minimally serviced lots ranging from 40 to 70 square

meters each for Eligible Beneficiaries, and program for the resettlement of about 16,000 people living in the flood affected areas.

7. Rehabilitation and repair of about 37 schools throughout the State and about 6 other public buildings as well as repair and execution of measures to prevent future damage to the water supply system, in about 22 locations in the State including a pumping station, about 16 small reservoirs and about 8 sections of pipes.

8. Acquisition and utilization of about 21 emergency rescue vehicles and equipment, including amphibious trucks, salvage and lighting equipment, heavy duty pumps and cranes to strengthen the capacity of the State's civil defense agency to deal with future emergencies.

9. Provision of technical assistance to: (a) prepare a civil-defense plan for the Metropolitan Region of Rio de Janeiro addressing, inter-alia, arrangements to prevent or mitigate the adverse effects of future natural or human disasters and institutional preparedness and coordination for such emergencies; (b) prepare a medium- and long-term reforestation plan for the Metropolitan Region of Rio de Janeiro, including: (i) an analysis of its technical, financial and institutional aspects; (ii) a description of technical criteria used to select areas to be reforested; (iii) an evaluation of the State's Secretariat of the Environment and an analysis of its technical and institutional capacity to execute the reforestation plan; (iv) a proposal of future protection of reforested areas; (v) an analysis of potential land tenure issues; and (vi) a schedule for implementing the reforestation plan; (c) prepare a medium- and long-term slope containment plan for the Metropolitan Region of Rio de Janeiro; (d) develop and implement a program to improve the management of solid waste; (e) prepare and implement a program in environmental education, including environmental consciousness; and (f) prepare and implement a program to strengthen the fiscal administrations of the Municipalities.

10. The provision of staff resources, equipment and office facilities for GEROE to administer and supervise execution of the Project.

Part B: Rio

1. Repaving about 12.5 kilometers of roads and constructing about 3.2 kilometers of walls to provide drainage as well as reconstruction and repair of about 7 bridges and related civil works.

2. Execution of Eligible Subprojects for repair and reconstruction of primary, secondary and tertiary drainage.

3. Removal of debris and implementation of measures to prevent landslides on steep slopes in about 52 locations by: (a) removing or securing rock formations; (b) providing drainage channels; (c) building retaining walls and barriers; and (d) planting vegetation.

4. Construction of about 7,000 minimally serviced lots of about 40 to 70 square meters each for Eligible Beneficiaries, and a resettlement program of about 28,000 people living in flood affected areas.

5. Rehabilitation and repair of about 89 schools.

6. Provision of technical assistance for carrying out: (a) educational programs in the following areas: (i) proper handling and disposal of solid waste as well as safe methods of house construction; (ii) prevention of reoccupation of hazardous sites; and (iii) forestry protection; as well as (b) programs for: (i) the inspection and control of illegal and informal mineral exploration; and (ii) the strengthening of the fiscal administration of Rio.

Part C: Municipalities

1. Removal of debris and implementation of measures to prevent landslides in about 70 locations by: (a) removing or securing rock formations; (b) providing drainage channels; and (c) building retaining walls and barriers.

2. Rehabilitation and repair of 30 schools in the Municipalities.

\* \* \* \*

The Project is expected to be completed by September 30, 1990.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each April 15 and October 15	
beginning October 15, 1993 through April 15, 2003	\$8,750,000

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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

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 and Consultants' Services

###### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

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).

###### Part B: Preference for Domestic Manufacturers; Reserved Procurement

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.

Part C: Other Procurement Procedures

1. Contracts for civil works estimated to cost less than the equivalent of \$4,000,000 may be procured on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank, provided, however, that the amount of the contracts so procured shall not exceed in the aggregate the equivalent of \$230,000,000.

2. Contracts for works estimated to cost less than \$25,000 equivalent may be procured on the basis of at least three quotations solicited locally, provided, however, that the amount of contracts so procured shall not exceed in the aggregate the equivalent of \$5,000,000.

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 pursuant to the provisions of Part A of this Schedule and the first five contracts for Parts A, B and C of the Project procured pursuant to Part C.1 of this Schedule, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where 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. Where 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 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 statements of expenditure. Such contracts shall be retained in accordance with Section 5.01 (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

For the 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 State, Rio and the Municipalities in the carrying out of the Project, the State, Rio and the Municipalities 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 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 \$22,500,000 to be withdrawn from the Loan Account and deposited in 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 in 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 Categories, 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 Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice

will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account (i) was made for 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 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.

