

CONFORMED COPY

LOAN NUMBER 4531-BR

Loan Agreement

(Ceará Integrated Water Resources Management Project - PROGERIRH)

between

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

and

STATE OF CEARÁ

Dated February 10, 2000

LOAN NUMBER 4531-BR

LOAN AGREEMENT

AGREEMENT, dated February 10, 2000, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF CEARÁ (the Borrower).

WHEREAS (A) the Borrower has adopted a policy for its water sector, the overall concept, actions, and objectives of which were presented to the Bank by the Borrower's Governor in a letter dated August 5, 1999 (the Water Sector Policy Letter);

WHEREAS (B) by the Loan Agreement dated December 12, 1997 between the Bank and the Borrower, the Bank made a loan to the Borrower for the Ceará Water Pilot Project, which provides the necessary studies and other information to serve as the basis and lessons for the carrying out of the Project (as hereinafter defined);

WHEREAS (C) 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 (the Project), has requested the Bank to assist in the financing of the Project;

WHEREAS (D) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee payment obligations of the Borrower in respect of the Loan 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 for Currency Pool Loans" of the Bank, dated January 1, 1985 (as amended through December 2, 1997) (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) "Annual Operating Plan " means each plan referred to in Section 3.12 (c) of this Agreement;

(b) "Cariri Region" means an area comprising the Cariri drainage basin and those areas contributing to the underlying aquifers of that area including the Chapada de Araripe region;

(c) "Coastal and Littoral Zone means an area comprising the coastal and littoral zone of the Borrower along the Atlantic ocean;

(d) "COGERH" means Companhia de Gestão dos Recursos Hídricos do Ceará, the Borrower's water resources management company established pursuant to the Borrower's Law Number 12,217 of November 18, 1993;

(e) "Dam Safety Review Panel" means the panel of experts in dam safety referred to in Section 3.10 (f) of this Agreement;

(f) "EIAR" means environmental impact assessment report, a document containing, inter alia, a description of expected environmental and social impacts to derive from a Subproject (as hereinafter defined), the mitigation measures designed to address those impacts, and an EMP (as hereinafter defined) for that Subproject;

(g) "Eligible Categories" means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(h) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(i) "EMP" means environmental management plan, a plan contained in an EIAR for the implementation of the mitigation measures designed to address the environmental and social impacts identified in such EIAR;

(j) "ERCs" means environmental rules for contractors, the set of specific environmental rules to be followed by contractors when carrying out works under Subprojects and included in the Operational Manual (as hereinafter defined);

(k) "First-year Annual Operating Plan" means an Annual Operating Plan covering the twelve-month period starting from the date of this agreement and related to the first year of Project implementation;

(l) "First-year Subproject" means a project selected by the Borrower prior to the date of this Agreement for initiation in the first year of Project implementation under Part B of the Project for the following locations: Aracoiaba, Catu Cinzento, Malcozinhado and Carmina;

(m) "First-year Subprojects-DARs" means the dam assesement reports prepared for First-year Subprojects containing the recommendations of a dam assessment review panel employed on the same basis as set forth in Section 3.10 (f) of this Agreement;

(n) "First-year Subprojects-EIARs" means the EIARs describing the expected environmental and social impacts from the First-year Subprojects, the mitigation measures designed to address those impacts and the corresponding EMPs;

(o) "First-year Subproject-RAPs" means the Resettlement Action Plans (as hereinafter defined) prepared for the First-year Subprojects and dated August, 1999;

(p) "FUNCEME" means Fundação Cearense de Meteorologia e Recursos Hídricos,

the Borrower's meteorological and water resources foundation established pursuant to Law Number 9,618 of September 18 1972, as amended by Article 9 of Law Number 11,380 of December 15, 1987;

(q) "Metropolitan Basin of Fortaleza" means the hydrographic watersheds that drain the geographical area comprising the municipalities in and around the metropolitan area of Fortaleza;

(r) "MIS" means the monitoring and information system referred to in Section 3.11 of this Agreement;

(s) "Operating Agreement" means any of the agreements referred to in Section 3.05 (a) of this Agreement;

(t) "Operational Manual" means the Project operations and implementation manual referred to in Section 3.03 of this Agreement;

(u) "Participating Entity" means any the following entities: COGERH, FUNCEME and SOHIDRA (as hereinafter defined);

(v) "POM" means the plan for operation and maintenance referred to in Part A.2 (a) of the Project;

(w) "Post-selected Subproject" means a project selected by the Borrower after the date of this Agreement, in accordance with the relevant provisions of the Operational Manual, and comprising the activities set forth in Parts B, C, D, E or F of the Project;

(x) "Project Monitoring Letter" means the letter dated October 15, 1999 from the Borrower's Secretary of Water Resources to the Bank, setting forth the indicators to be used in monitoring the progress in the implementation of the Project and in evaluating its results, and specific indicators to be complied by COGERH pursuant to the relevant Operating Agreement;

(y) "REAR" means regional environmental impact assessment report, a document dated April 19, 1999 and issued by SRH, which describes the potential cumulative environmental and social impacts of Subprojects and containing recommendations to mitigate such impacts;

(z) "REMP" means regional environmental management program dated April 19, 1999 and issued by SRH, a document resulting from the carrying out of the REAR and containing the detailed phases for the implementation of the mitigation measures designed to address the environmental and social impacts identified in the REAR;

(aa) "Resettlement Action Plan" means a plan, satisfactory to the Bank, for the carrying out of resettlement activities required under a Subproject and containing, inter alia: land surveys; a household cadaster; estimated financial value of assets that will be lost; a socioeconomic baseline survey; eligibility criteria for compensation, assistance and rehabilitation entitlements; the relevant legal framework; land acquisition, transfer and titling arrangements; safety and security arrangements; institutional arrangements; provisions for the participation of and consultation with affected persons in the design and implementation of the plan; grievance procedures; implementation timetable correlated with the Subproject construction timetable; a detailed budget; and monitoring and evaluation arrangements of resettlement activities;

(bb) "Resettlement Framework" means the document dated August 10, 1999 and issued by SRH, specifying the resettlement policies, planning principles, institutional arrangements, procurement arrangements and design criteria satisfactory to the Bank that shall apply to the preparation and carrying out of any Resettlement Action Plan which may be required under a Subproject, such Resettlement Framework to be comprised of, inter alia, a resettlement operational manual, model terms of reference for resettlement planning and the corresponding Decrees of the Borrower establishing community mobilization committees and community development committees;

(cc) "River Basin Committees" means the participatory advisory bodies comprised of stakeholders within each river basin, established for the purpose of, inter alia, assisting in the management of the water resources of that basin;

(dd) "Selected Micro Watersheds" means the following four micro watersheds: (i) Riacho do Meio (Caridade Municipality); (ii) Riacho Lagoa Nova (Capistrano Municipality); (iii) Riacho São Gonçalo (Palmácia/Maranguape Municipalities); and (iv)

Riacho Palmatória (Aratuba/ItaSPMUna Municipalities), or any other additional micro-watersheds that may be agreed upon between the Borrower and the Bank;

(ee) "SOHIDRA" means "Superintendência de Obras Hidráulicas" the Borrower's superintendency of hydraulic works established pursuant to Law Number 11,380 of December 15, 1987;

(ff) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(gg) "SPMU - Special Project Management Unit" means the unit referred to in Section 3.04 (b) of this Agreement;

(hh) "SRH" means Secretaria dos Recursos Hídricos, the Borrower's Secretariat of Water Resources; and

(ii) "Subproject" means either a First-year Subproject or a Post-selected Subproject.

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 one hundred and thirty six million Dollars (\$136,000,000), 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. 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 goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. 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 2.06. (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 three-fourths of one percent (3/4 of 1%). On each of the dates specified in Section 2.07 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 2.07 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 three-fourths of one percent (3/4 of 1%). On each of the dates specified in Section 2.07 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 2.07. Interest and other charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.08. 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through SRH, with the assistance of the Participating Entities pursuant to Section 3.05 of this Agreement, all with due diligence and efficiency, in accordance Water Sector Policy Letter and in conformity with appropriate administrative, financial, resettlement, environmental and water resources management practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. 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 4 to this Agreement.

Section 3.03. Without limitations upon the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project, or cause the Project to be carried out, in accordance with an operational manual satisfactory to the Bank (the Operational Manual) containing, inter alia: (a) detailed arrangements for the overall carrying out of the Project; (b) a description of the Project's decision making bodies and their corresponding responsibilities; (c) the mechanisms and procedures to be followed by these bodies, and the relevant implementation schedule; (d) the procedures and criteria for the selection and carrying out of Subprojects; (e) the plans, instruments, and procedures related to dam safety issues; and (f) the procedures and criteria for training, technical assistance, environmental assessment and corresponding mitigation measures (including the ERCs), resettlement and other activities to be carried out under the Project. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.04. The Borrower shall:

(a) For the purposes of providing the Borrower with general guidance in respect of the Project, establish and thereafter maintain within SRH, until the completion of the Project, an advisory body with terms of reference as set forth in the Operational Manual, and the following composition: (i) two representatives from

SRH, one of such representatives to be the President of such advisory body; (ii) one representative from each of the Participating Entities; (iii) the Coordinator-General of the SPMU; and (iv) two independent experts with experience and qualifications acceptable to the Bank and appointed by the Borrower's Governor.

(b) Establish and thereafter maintain within SRH, until the completion of the Project, the SPMU with responsibilities, structure and functions as set forth in the relevant sections of the Operational Manual and with staff in adequate numbers and with adequate qualifications, for the purpose of, inter alia: (i) assisting SRH in the overall coordination and carrying out of the Project; and (ii) preparing the Annual Operating Plans and submitting them to the Bank for approval.

Section 3.05. (a) For the purposes of the overall carrying out of the Project, the Borrower, through SRH, shall enter into an agreement, satisfactory to the Bank (the Operating Agreement), with each Participating Entity to govern such entity's overall responsibilities in the carrying out of its activities under the Project.

(b) The Borrower shall exercise its rights and comply with its obligations under each Operating Agreement in such a manner as to protect the interests of the Borrower and the Bank, and, except as the Bank shall otherwise agree, the Borrower shall not amend, suspend, abrogate, waive or fail to enforce any of the Operating Agreements, or any provision thereof.

Section 3.06. Not later than January 31, 2002, the Borrower shall furnish to the Bank the POM, in form and substance satisfactory to the Bank, and thereafter, carry out the POM in accordance with its terms as approved by the Bank.

Section 3.07. For the purposes of carrying out Part A.5 of the Project, the Borrower shall:

(a) Not later than January 31, 2002, furnish to the Bank the strategy and the plan referred to in Part A.5 of the Project, as such strategy and plan shall have been prepared in accordance with terms of reference satisfactory to the Bank, and, thereafter exchange views with the Bank thereon.

(b) If the plan referred to in paragraph (a) above is not satisfactory to the Bank, the Bank shall so inform the Borrower, and the Borrower shall establish a panel of experts with composition and terms of reference satisfactory to the Bank for the purpose of making recommendations to the Borrower in respect of bulk water tariffs. A copy of such recommendations shall be promptly furnished to the Bank.

(c) In the months of August of the years 2002 and 2004, respectively, the Borrower shall review jointly with the Bank, the progress made by the Borrower in adopting bulk water tariffs as a result of the process set forth in paragraphs (a) and (b) above.

Section 3.08. For the purposes of carrying out Part A.6 of the Project, the Borrower shall:

(a) not later than 180 days after the date of this Agreement, through SRH, furnish to the Bank a proposal for the reformulation of the Borrower's legal and institutional framework;

(b) not later than 180 days after the date of this Agreement, through SRH, submit to the Bank, for approval, the location of the areas where market-based mechanisms for water allocation may be piloted; and

(c) not later than March 31, 2001, and on the basis of the legal and institutional proposal referred to in paragraph (a) of this Section, submit to its Legislative Assembly a bill of law allowing for the implementation of the aforementioned mechanisms.

Section 3.09. For the purposes of carrying out a First-year Subproject, the Borrower, through SRH, shall carry out, respectively, the First-year Subproject-DAR, the First-year Subproject-RAP and the relevant EMP contained in the corresponding First-year Subproject-EAIR by taking into account the REAR and the REMP, respectively, all in strict compliance with their own terms.

Section 3.10. For the purposes of carrying out Parts B, C, D, E or F of the Project:

(a) The Borrower shall submit each Subproject to the Bank for approval before

submitting any application for the withdrawal of Loan proceeds from the Loan Account or before disbursing funds from the Special Account for the purpose of financing expenditures under the relevant Subproject.

(b) When presenting a Subproject to the Bank for approval, the Borrower, through SRH, shall furnish to the Bank an application, in form and substance satisfactory to the Bank, and in conformity with the relevant provisions of the Operational Manual, containing, inter alia: (i) a description of the Subproject and expenditures to be incurred therein, including those expenditures proposed to be financed out of the proceeds of the Loan; (ii) a detailed description of how the relevant Subproject meets the eligibility criteria set forth in the Operational Manual; (iii) a plan for the administration, operation and maintenance of the proposed Subproject; (iv) an evaluation on the legal and physical availability of the land necessary for the purpose of the Subproject; (v) whenever necessary, evidence that the necessary water rights for the Subproject have been obtained; (vi) evidence that the Borrower holds the corresponding environmental permits required for the execution of the works planned under the proposed Subproject; (vii) whenever applicable, evidence of compliance with paragraph (c) of this Section; (viii) whenever a Subproject requires the undertaking of environmental protection measures and/or resettlement of population: (A) evidence of compliance with any recommendation for adoption of advance monitoring and mitigation measures set forth in the REMP; (B) the EIAR (which shall take into account the findings and recommendations set forth in the REAR and the REMP); and/or (C) Resettlement Action Plan, as such EIAR and/or plan shall have been prepared in accordance with terms of reference satisfactory to the Bank, and, in the case of a Resettlement Action Plan, in accordance with the Resettlement Framework; and (ix) such other information as the Bank shall reasonably request in respect of the relevant Subproject.

(c) Whenever a Subproject requires the undertaking of environmental protection measures and/or resettlement of population in accordance with the provision of paragraph (b) of this Section, the Borrower shall carry out the corresponding EMP (which shall take into account the recommendations set forth in the REMP), and/or carry out the Resettlement Action Plan in a manner and within a timetable satisfactory to the Bank.

(d) The Borrower shall include in any contract for works under Subprojects covenants, satisfactory to the Bank, requiring that the contractor, upon unearthing or locating any structure or artifacts of cultural, historical, archeological or paleontological significance, shall bring them to the attention of the authorities, shall suspend work in the area in question and shall fully comply with any instructions from such authorities.

(e) If during the carrying out of any work under a Subproject, there is, in the reasonable opinion of the Bank, a risk that a critical natural habitat (as such term is defined in the Operational Manual) not identified in the relevant EIAR may be significantly converted or degraded during the course of the carrying out of a Subproject, such work shall be suspended until an alternative acceptable to the Bank is identified by the Borrower.

(f) Without limitation upon any other provision of this Agreement and whenever a Subproject includes the construction of a dam which is fifteen meters or more in height, or which is between ten and fifteen meters in height and presents, in the reasonable opinion of the Bank, special design complexities, the Borrower shall: (i) establish and thereafter maintain during the design and initial operation of such Subproject, a Dam Safety Review Panel under terms of reference and arrangements acceptable to the Bank; (ii) cause the relevant dam, reservoir and related structures to be periodically inspected by qualified professionals under terms of reference acceptable to the Bank and in accordance with the relevant provisions of the Operational Manual, in order to determine whether there are any deficiencies in the condition of such structures, or in the quality and adequacy of maintenance or methods of operation of the same, which may endanger their safety; (iii) furnish to the Bank for its review the periodic reports of the Dam Safety Review Panel (to be issued in accordance with its terms of reference) and of the professionals referred to in subparagraph (ii) above, together with the Borrower's own comments; and (iv) no later than six months before the expected completion of the relevant dam, reservoir and related structures, propose to the Bank for its review and approval, appropriate arrangements for their operation and maintenance. In the carrying out of First-year Subprojects, the Borrower shall maintain the Dam Safety Review Panel created under the Ceará Urban Development Project (PROURB) and comply with the requirements set forth above, including the recommendations set forth in the First-year Subprojects-DARs.

(g) Notwithstanding the above, after the dates specified in Section 3.07 (c)

of this Agreement, the Bank may refrain from approving new Subprojects if it is not satisfied with the progress made by the Borrower in adopting bulk water tariffs pursuant to the results of the exchange of views between the Borrower and the Bank or the recommendations of the panel of experts, as the case may be, in accordance with the provisions of Sections 3.07 (a) and (b) of this Agreement, respectively.

Section 3.11. The Borrower shall maintain, during the implementation of the Project, a computerized management information system, satisfactory to the Bank (the MIS), which provides the following Project information: (i) Annual Operating Plans; (ii) progress and monitoring reports; (iii) expenditures; (iv) financial management and socio-economic data; (v) eligibility criteria for accessing Project funds; and (vi) base-line data (perfil de entrada) related to the population benefiting from Subprojects.

Section 3.12. Without limitation upon the provisions of Sections 9.01 (a) and 9.07 of the General Conditions and the provisions of Section 4.02 (b) of this Agreement, the Borrower, through SRH, shall:

(a) In the months of July and January of each year during Project implementation, furnish to the Bank reports of such scope and in such detail as the Bank shall reasonably request on the progress in the implementation of the Project during the previous six months, such progress to be measured on the basis of the indicators set forth in the Project Monitoring Letter.

(b) In the months of February and August (except in the month of August of the years 2002 and 2004, respectively) of each year during Project implementation, hold reviews with the Bank based on the reports referred to in paragraph (a) above and, thereafter, take or cause to be taken all such action which shall have been agreed upon by the Borrower and the Bank, during the reviews referred to in this paragraph, as necessary for the efficient execution of the Project or the achievement of its objectives, such action to be taken in the manner and within the timetable agreed upon during such reviews.

(c) In the month of August during each year of Project implementation, furnish to the Bank an annual program satisfactory to the Bank (the Annual Operating Plan), describing, inter alia, the Project activities (including Subprojects) to be carried out during the next calendar year, including the cost thereof, and, thereafter, carry out the Project in accordance with the terms of such Annual Operating Plan and this Agreement.

Section 3.13. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower, through SRH, shall:

(a) except with respect to the Subprojects, prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain in the SPMU a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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 the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B)

an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may 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 Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or 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 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than one year after the Effective Date, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and
- (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and
- (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 each of the Operating Agreements has been entered into between the parties thereto; and

(b) that the Operational Manual has been approved by the Bank.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion to be furnished to the Bank, namely, that the Loan has been validly registered by the Borrower's Central Bank.

Section 5.03. The date May 10, 2000 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Borrower's Secretary of Water Resources is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretaria dos Recursos Hídricos
Av. General Afonso A. Lima
Centro Administrativo Virgílio Távora
Ed. SEDUC, Bloco C, 1º andar
Cambeba
60819-900 Fortaleza - CE
Brazil

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:

248423 (MCI) or
64145 (MCI)

With copies to:

Ministério do Planejamento, Orçamento e Gestão
Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco "K" - 5º andar
70040-906, Brasília, D.F.
Brazil

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gobind T. Nankani

Authorized Representative

STATE OF CEARÁ

By /s/ Tasso Jereissati

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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) Works	82,800,000	50%
(2) Goods	5,500,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 80% of local expenditures
(3) Consultants' services and training	26,800,000	100%
(4) Incremental Recurrent Costs	1,700,000	100% up to \$700,000 in the aggregate; thereafter 50% up to 1,200,000 in the aggregate; and 20% thereafter
(5) Fee	1,360,000	Amount due under Section 2.04 of this Agreement
(6) Unallocated	17,840,000	
TOTAL	136,000,000	

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;

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

(c) the term "Incremental Recurrent Costs" means incremental costs related to the operation, management and supervision of the Project, including administrative and service personnel, maintenance and supplies, communication services and spare parts for office equipment and vehicles.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of thirteen million and six hundred

thousand Dollars (\$13,600,000), may be made on account of payments made for expenditures after the twelve months before the date of this Agreement; and

(b) for a Subproject, unless such Subproject has been approved by the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures under contracts for: (a) civil works costing less than \$500,000 equivalent (except the first three contracts for works to be awarded pursuant to Section C.1 of Schedule 4 to this Agreement); (b) goods costing less than \$500,000 equivalent (except the first three contracts for goods to be awarded pursuant to Section C.1 of Schedule 4 to this Agreement); (c) services of consulting firms costing less than \$100,000 equivalent; and (d) services of individual consultants costing less than \$50,000 equivalent; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means the amount of \$6,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$3,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the amount of \$18,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such

deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the amount of \$20,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) increase the sustainable water supply for multiple uses and improve the efficiency of the Borrower's integrated water resources management system; (b) stimulate multiple use, and efficient and participatory management of the Borrower's water resources; and (c) promote improved management of soil and vegetation in tributary watersheds to minimize erosion and enhance natural water storage mechanisms through the adequate management of critical micro-basins and ground water resources.

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

Part A: Improvement of the Management and Institutional Framework

1. Hydro-meteorological information system

(a) Inventorying, prioritization and classification of hydro-meteorological information of the Borrower's agencies as to potentialities for the generation or use of information.

(b) Based on the above activities, acquisition and installation of hydro-meteorological information system components to provide a comprehensive and accessible data base of water-related natural resources information to both the public and the private sector.

2. Sustainable Operation and Maintenance of Bulk Water System

(a) Development and implementation of a plan for operation and maintenance of a bulk water system.

(b) Provision of assistance to COGERH in the development of sustainable preventative maintenance practices, establishment of depreciation reserves for extraordinary maintenance and equipment replacement, maintenance training programs, and emergency response strategies for the bulk water system.

3. Dam Safety and Inspection Program

Development of a comprehensive program of inventorying, risk classification, inspection and rehabilitation prioritization for about 200 dams and reservoirs located within the Borrower's territory.

4. Basin Committee Organization and Training

Provision of assistance for the enhancement of the existing program of formation and development of capacity within River Basin Committees to participate in a meaningful way in the management of water resources within the river basins of the Borrower.

5. Water Tariff Implementation

Continuation of the program of implementation of bulk water tariffs through the development of: (a) a strategy that reflects the real cost of providing water services

and a socially viable system of tariffs and cross-subsidies where necessary; and (b) a plan to implement the proposed strategy.

6. Market-Based Water Allocation Mechanisms

Develop a pilot program, including the selection of areas and the necessary legal and institutional framework, to test and evaluate the use of market-based mechanisms for water allocation to meet changing demands and drought crisis.

7. Public Information and Education Program

Design and implementation of a public information and education program for the purposes of, inter alia, educating the general public, opinion-makers and the media regarding the value of water resources and the necessity for conserving and maintaining the quality of those resources

Part B: Strategic Reservoir Network

Carrying out of projects comprising the design and construction of key infrastructure such as reservoirs, water pipelines and related infrastructure, critical to the provision of water supply to rural areas subject to droughts.

Part C: Integration of Selected River Basins

Carrying out of projects comprising the following activities:

1. Carrying out of a detailed analysis of inter-basin water resources transfer proposals to: (a) evaluate environmental, social, technical and economic feasibility of such proposals; and (b) develop long range schedules for the implementation of those options that are feasible.

2. Preparation of final designs and construction of key inter-basin transfer systems, including the development of operation and maintenance plans for these facilities.

3. Construction of priority infrastructure to assure an adequate water supply for industrial, municipal and domestic purposes within the Metropolitan Basin of Fortaleza.

Part D: Restoration of Existing Bulk Water Infrastructure

Carrying out of projects comprising the rehabilitation of critical water resource storage and delivery systems within the Borrower's territory.

Part E: Micro Watershed Management Pilot

Carrying out of projects in the Selected Micro Watersheds comprising the following activities:

1. Establishment of a methodology for prevention of the effects of degradation of vegetation and its rehabilitation, thus mitigating adverse environmental impacts.

2. Development of simple techniques for soil and water conservation in the micro watersheds by using local human and natural resources.

3. Restoration of native vegetation along watercourses and steep slopes.

4. Adoption of small erosion control and water retention structures to increase interseasonal water availability and improve the conditions for animal husbandry.

Part F: Groundwater Management

Carrying of projects comprising the following activities:

1. Cariri Region

Collection and production of the relevant data regarding the groundwater situation in the Cariri region, especially regarding the Chapada do Araripe and its link to the Cariri plain, and development and implementation of an action plan to improve groundwater management.

2. Coastal and Littoral Zone

Analysis and implementation of recommendations developed under the Ceará Water Pilot Project for the development and implementation of a coastal and littoral zone groundwater management plan, including the preparation and implementation of a program for the identification and preservation of critical recharge zones to assure the long term sustainability of coastal and littoral zone groundwater resources.

* * *

The Project is expected to be completed by December 31, 2005

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 15 and November 15	
Beginning May 15, 2005 through November 15, 2014	6,800,000

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 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

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

In the procurement of goods pursuant to paragraph 1 of this Part B, the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Guarantor. For purposes of the Guidelines, the term custom duties and other import taxes includes the Guarantor's Freight Surcharge for the Renewal of the Merchant Marine (Adicional ao Frete para a Renovação da Marinha Mercante - AFRMM), 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.

(c) Notification and Advertising

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost \$100,000 equivalent or more per contract, but less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, and works estimated to cost \$500,000 equivalent or more per contract but less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$17,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. In the procurement of goods and works under this Part C.1, bidding documents in a standardized form for the Project shall be used.

Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement of goods and works to be undertaken pursuant to this Part C.1:

(a) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;

(b) whenever required by the Bank, the invitation to bid shall be advertised for at least three consecutive days in a newspaper of wide circulation in Brazil;

(c) the arrangements, under the invitation to bid, for joint-ventures (consórcios) of Brazilian and foreign firms shall be approved in advance by the Bank in each case;

(d) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

(e) the purchaser shall not, without the Bank's prior approval, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.

2. Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,800,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures acceptable to the Bank in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$7,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract for goods and works procured under Part B.1 of this section; and (b) the first three contracts for goods and the first three contracts for works under Part C.1 of this section; the procedure set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services including auditing, monitoring the implementation of tariff policies and estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for tasks that meet the requirements set forth in paragraph 3.7 of the

Consultant Guidelines and estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

