

CONFORMED COPY

LOAN NUMBER 4238-BR

Loan Agreement

(Land Management III Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF SÃO PAULO

Dated December 7, 1999

LOAN NUMBER 4238-BR

LOAN AGREEMENT

AGREEMENT, dated December 7, 1999 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF SÃO PAULO (the Borrower).

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

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee certain 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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, subparagraph (k) is re-lettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

(d) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

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 any of the plans referred to in Section 3.07 of this Agreement;

(b) "Beneficiary" means the individuals or the entities in the Guarantor's private sector which are responsible for the carrying out of a Microcatchment Subproject (as hereinafter defined);

(c) "CATI" means Coordenadoria de Assistência Técnica Integral, the administrative unit within SAA (as hereinafter defined) established by the Borrower's Decree No. 48,133 of June 20, 1967, as amended by the Borrower's Decree No. 41,608 of February 24, 1997;

(d) "Consultative Council" means the council established pursuant to the

Borrower's Decree 41,990 of July 23, 1997;

(e) "Grant" means a grant to be made or proposed to be made by the Borrower, through SAA (as hereinafter defined), to a Beneficiary, partially out of the proceeds of the Loan, for the purposes of financing a Microcatchment Subproject (as hereinafter defined);

(f) "IAU" means the internal audit and control unit created within CATI pursuant to CATI's Portaria No. 21 of September 1999;

(g) "Microcatchment" means a microbacia hidrográfica, a small watershed or small area bounded peripherally by a water parting and draining ultimately to a particular small watercourse;

(h) "Microcatchment Subproject" means a project which is part of a land management and conservation plan for a particular Microcatchment, and selected by the Borrower pursuant to the criteria and procedures set forth in the Project Implementation Manual (as hereinafter defined) consisting of investments and other activities in any of the areas referred to in Part C.2 of the Project;

(i) "Microcatchment Subproject Agreement" means any of the agreements referred to in Section 3.03 of this Agreement;

(j) "Municipal Councils" means Conselhos Municipais, the municipal councils referred to in Section 3.01 (d) (i) of this Agreement;

(k) "Municipality Arrangements" means the arrangements referred to in Section 3.01 (d) of this Agreement;

(l) "Project Implementation Manual" means the manual for the implementation of the Project, approved by SAA (as hereinafter defined) through Resolution No. 41 of September 19, 1997, as the same may be amended by agreement between the Bank and the Borrower, such Manual to include the technical manual related to the extension services to be financed by the Loan and approved by the SAA (as hereinafter defined);

(m) "PCU" means the Project coordination unit housed within CATI and established by SAA's (as hereinafter defined) Resolution of September 23, 1999;

(n) "Project Area" means an area of approximately 4,500,000 hectares distributed in about 1,500 Microcatchments in the Borrower's territory;

(o) "Project Monitoring Letter" means the letter dated September 11, 1997 delivered by the Borrower's Secretariat of Agriculture and Supply to the Bank, setting forth the indicators and targets to be used in monitoring the progress of the implementation of the Project and in evaluating its results;

(p) "SAA" means Secretaria de Agricultura e Abastecimento, the Borrower's secretariat of agriculture and supply; and

(q) "Special Account" means the account referred to in Section 2.02 (b) 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, various currencies that shall have an aggregate value equivalent to the amount of fifty-five million dollars (\$55,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2005 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 percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

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

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

(c) For the purposes of this Section:

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

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

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

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

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

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

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

Section 2.06. Interest and other charges shall be payable 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.

Section 2.08. The Secretary of SAA, and the person or persons designated in writing by such Secretary, are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 (a) of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through SAA with due diligence and efficiency and in conformity with: (i) the Project Implementation Manual; (ii) the relevant Annual Operating Plan; and (iii) appropriate administrative, financial, environmental, agricultural and land management practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall maintain until at least the completion of the Project: (i) the PCU with responsibilities, structure and functions satisfactory to the Bank, and with staff in adequate numbers and with adequate qualifications, for the purposes of assisting SAA in the carrying out of the Project; (ii) the IAU with responsibilities, structure and functions satisfactory to the Bank, for the purposes of assisting SAA in exercising physical, financial and administrative procedural control in respect of Project activities; and (iii) the Consultative Council with responsibilities, structure and functions satisfactory to the Bank, and composed by members from the Borrower's public and private sectors, for the purposes of, inter alia, advising the SAA on the overall implementation of the Project.

(c) The Borrower shall, by not later than six months after the date of this Agreement, employ one professional responsible for the engineering and one professional responsible for the environmental functions to be carried out by the IAU in respect of the Project, such professionals to have qualifications acceptable to the Bank.

(d) The Borrower shall enter into arrangements, satisfactory to the Bank, with each of the municipalities benefiting from Project activities (the Municipality Arrangement), providing, inter alia, for:

(i) the establishment and maintenance by the relevant municipality, until the completion of the Project, of the relevant municipal council (the Municipal Council) in respect of Parts B, C and D of the Project, as provided in the Project Implementation Manual, such Municipal Council to serve the following purposes: (A) promotion of the Project at the municipal level; (B) provision of information to prospective Beneficiaries with respect to Microcatchment Subproject conditions and approval procedures; and (C) subject to the provisions of the Project Implementation Manual, participation in the selection of Microcatchment Subprojects;

(ii) the participation of the relevant municipality in the extension activities financed under the Project and described in Part B of the Project, such participation to include the procurement and monitoring of works; and

(iii) the obligation of the relevant municipality, during Project implementation, in respect of Part D.1 of the Project, to maintain the road section under its jurisdiction in accordance with appropriate practices.

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. For the purposes of Part C.2 of the Project, the Borrower, through SAA, shall enter into a grant agreement, satisfactory to the Bank, with each of the Beneficiaries (the Microcatchment Subproject Agreement) to finance the costs of a Microcatchment Subproject, under terms and conditions satisfactory to the Bank which shall include, inter alia, the terms and conditions set forth in the Project Implementation Manual.

Section 3.04. The Borrower shall exercise its rights and comply with its obligations under the Microcatchment Subproject Agreements and the Municipality Arrangements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any of such Microcatchment Subproject Agreements and the Municipality Arrangements or any provision thereof.

Section 3.05. Without limitation upon the provisions of Section 3.01 (a) of this Agreement and the provisions of the Project Monitoring Letter, the Borrower, shall, during Project implementation, starting not later than nine months after the date of this Agreement, monitor, for the purposes of measuring Project impact, a minimum of six and a maximum of twelve Microcatchments located in the Project Area, the results of such monitoring to be included in the reports referred to in Section 3.06 (a) (i) of this Agreement.

Section 3.06. (a) Without limitation or restrictions upon the Bank's rights under Section 9.07 of the General Conditions, the Borrower shall prepare and furnish to the Bank, for its review and comments:

(i) by not later than three months after the end of each calendar semester, a report during such semester; and

(ii) by not later than December 31, 2002 or when disbursements from the Loan Account shall have reached 50% of the amount of the Loan, whichever is earlier, a mid-term evaluation report of such scope and in such detail as the Bank shall have reasonably requested, prepared by consultants acceptable to the Bank and employed under terms of reference satisfactory to the Bank, on the progress achieved in the carrying out of the Project and on the Borrower's performance of its obligations under this Agreement, such report to take into account the Project Monitoring Letter.

(b) Without limitation or restriction upon the Bank's rights under Section 9.01 (a) of the General Conditions, the Borrower shall exchange views with the Bank promptly upon its request on any of the aforesaid reports, and shall take, or cause to be taken, all such action that may be recommended by any of the aforesaid reports or which shall have been agreed by the Bank and the Borrower during any of such exchange of views, such action to be taken in the manner and within the timetable that may be recommended by such reports or which shall have been agreed upon during such exchange of views.

Section 3.07. The Borrower shall, by not later than December 31 of each year during the implementation of the Project, furnish to the Bank an annual operating plan (the Annual Operating Plan), satisfactory to the Bank, including, inter alia, the physical targets, and the staffing, training and procurement programs for the activities to be carried out under the Project during the succeeding calendar year.

Section 3.08. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) 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, the Borrower 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.

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project, of the departments or agencies of the Borrower in charge of the execution of the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts 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 appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;

(iii) furnish to the Bank monthly certified statements of the Special Account; and

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

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

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

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that the Borrower's Decree No. 41,719 of April 16, 1997 or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the reasonable opinion of the Bank, materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event referred to in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that this Agreement has been duly registered by the Guarantor's Central Bank.

Section 6.03. The date March 7, 2000 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, the Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the 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)

For the Borrower:

Secretaria de Estado dos
Negócios da Fazenda
Avenida Rangel Pestana 300/ 5º andar
01017-000 São Paulo, S.P.
Brazil

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

Secretaria de Agricultura e Abastecimento
Avenida Miguel Estefano, 3900
04301-903 São Paulo, S.P.
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 the city of São Paulo, S.P., 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 SÃO PAULO

By /s/ Mário Covas Júnior

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) Civil Works	16,200,000	55%
(2) Goods (including seedlings)	13,000,000	100% of foreign expenditures and 65% of local expenditures
(3) Consultants' services	7,900,000	100% of local expend- itures for services of consultants domiciled within the territory of the Guarantor; and 100% of foreign expenditures for services of other consultants
(4) Training	1,000,000	55%
(5) Grants	11,900,000	70% of amounts disbursed
(6) Unallocated	5,000,000	
TOTAL	<u>55,000,000</u> =====	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the

Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding an amount equivalent to \$2,500,000, may be made on account of payments made for expenditures before that date but after June 30, 1998 or a date twelve months before the date of this Agreement, whichever is later.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under training, Grants and contracts for goods costing less than \$100,000 equivalent, for works costing less than \$350,000 equivalent, for services of consulting firms costing less than \$100,000 equivalent and for services of individual consultants costing less than \$50,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase and sustain agricultural production and productivity, and farm income and to assist in the conservation of natural resources in the Project Area by: (a) promoting the adoption of sustainable forms of land management and soil, water and forest conservation, at the Microcatchment level, involving the farming community in natural resources planning, use and monitoring; (b) developing community environmental awareness and participation in environmental protection efforts; (c) increasing the extent and duration of vegetative cover to the soil; and (d) improving internal soil structure and drainage, and safely disposing of any remaining agro-chemical run-off, either within or outside farm boundaries.

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: Adaptive Agricultural Research

Strengthening of SAA's adaptive research capacity on improved management of natural resources, soil structure and vegetative cover, through the carrying out of research trials identified by farmers or group of farmers located in the Project Area on the development of, inter alia, soil conservation practices, erosion control methods, land use rationalization, crop diversification, agroforestry systems, agricultural input use rationalization, integrated pest management, pasture rehabilitation, and sustainable systems for small farmers.

Part B: Technology and Institutional Development

Strengthening the provision of extension services to assist Microcatchment land users in the Project Area to improve their natural resource management and soil work on forest conservation practices through:

1. Mobilization of about 300 senior extensionists at the municipal level and acquisition and utilization of vehicles, equipment and furniture; and

2. Provision of extension services to about 90,000 farmers in consultant Microcatchments in the Project Area to assist them in:

(a) organizing and establishing a farmer association within each Microcatchment in the Project Area which participates in the carrying out of the Project;

(b) carrying out of land use mapping as the basis for the preparation of land management soil conservation plans for each Microcatchment;

(c) preparing, with the participation of the corresponding farmer association, a land management and soil conservation plan for each Microcatchment, complemented, where necessary, with individual farm plans for small-scale farmers; and

- (d) preparing applications for Microcatchment Subprojects.

Part C: Program for Land Management, Soil Conservation, and Pollution Control and Reforestation

1. Carrying out of environmental education activities including: (a) preparation of an operational strategy for environmental education based on a participatory methodology; and (b) training, seminars and workshops on natural resources management, in particular with respect to the management of the relevant Microcatchment.

2. Provision of Grants to farmers or group of farmers in the Project Area for the purposes of carrying out Microcatchment Subprojects, consisting of: (a) application of technologies for improving the management and quality of river water; and (b) the development and expansion of the Borrower's reforestation program through the distribution of seedlings of native species for planting by Microcatchment farmers of private land located either in continuous protective strips along water courses or in small plots on steeper areas or shallow soils unsuitable for agriculture.

3. Strengthening of SAA's soil conservation, land use and pollution control inspection unit in charge of the enforcement of the Soil Conservation Legislation in the Borrower's territory.

Part D: Erosion Control Works along Rural Roads

1. Carrying out of works aiming at controlling the erosion along about 6,000 kilometers of rural roads in the Project Area.

2. Enhancement of SAA's road work monitoring and supervision capacity and the coordination between SAA and each of the respective entities responsible for road works within the Project Area, through the provision of consultants' services for engineering design activities and supervision of the proposed works, staff training, and acquisition of vehicles and information equipment.

Part E: Training and Communication

1. Training in participatory planning and implementation of improved natural resource management and conservation practices, through:

- (a) comprehensive start-up training for about 50 state and regional managers on the Project's technical and administrative concept and strategy based on the Project Implementation Manual;

- (b) advanced technical courses for about 50 training monitors, regional managers, coordinators and subject matter specialists;

- (c) basic technical and operational courses for extension agents and technical staff, Municipal Councils and Microcatchment commissions, and environmental law enforcement officials followed by appropriate updating sessions;

- (d) orientation meetings, excursions and farmer-field demonstrations for farmers;

- (e) seminars, specialized courses and study tours for research and extension agents; and

- (f) organized study tours within the country and abroad.

2. Provision of audio visual aids on modern land management and soil conservation practices for public information and acquisition and utilization of vehicles and equipment to increase the training capacity of CATI.

Part F: Project Coordination, Monitoring and Evaluation

Strengthening the capacity of the PCU to carry out overall Project administration, monitoring and evaluation through the provision of technical assistance, vehicles and information equipment.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each April 15 and October 15 beginning April 15, 2003 through October 15, 2012	2,750,000

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

Premiums on Prepayment

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 (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 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 specialized research and computer equipment, and software shall be grouped into bid packages estimated to cost the equivalent of \$350,000 or more each.

(b) Preference for Domestically Manufactured Goods

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods (other than specialized research and computer equipment, and software) estimated to cost \$100,000 equivalent or more per contract, but less than \$350,000 equivalent per contract, up to an aggregate amount of \$13,300,000 equivalent, may, and works estimated to cost \$350,000 equivalent or more per contract shall 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/or 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 (other than specialized research and computer equipment, and software) estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount of \$2,400,000 equivalent, may be procured under contracts awarded on the basis of 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 \$350,000 equivalent per contract, up to an aggregate amount of \$7,300,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three 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.

4. Community Participation

Goods and works, financed by Grants under Part C.2 of the Project for Microcatchment Subprojects of up to \$50,000 equivalent, to be procured by a Beneficiary, may be procured in accordance with procedures acceptable to the Bank as provided in paragraph 3.15 of the Guidelines (including direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines) as detailed in the Project Implementation Manual.

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 each contract for: (i) goods estimated to cost the equivalent of \$100,000 or more; and (ii) works estimated to cost the equivalent of \$350,000 or more the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Part E: Other

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), established pursuant to the Guarantor's Decree-Law No. 1,142 of December 30, 1970, as amended on 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.

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 (the Consultant Guidelines) and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

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. Selection Under a Fixed Budget

Services for applied research activities which meet the requirements set forth in paragraph 3.5 of the Consultant Guidelines, 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 3.5 of the Consultant Guidelines.

2. Least-cost Selection

Services for internal and external audit activities under Part F of Project and for engineering designs and supervision under Part D of the Project which meet the requirements set forth in paragraph 3.6 of the Consultant Guidelines, 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.

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, provided, however, that the terms of reference for such contract shall be furnished to the Bank for its prior review and approval.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) 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 Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$4,000,000, or such other amount as the Bank shall establish, to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,000,000 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 be equal to or exceed an amount equivalent to \$8,000,000.

2. 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 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 do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan

Account and deposit into 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. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 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 an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into 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. 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 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.

(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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

