

CONFORMED COPY

LOAN NUMBER 4147 BR

Loan Agreement

(Land Reform and Poverty Alleviation Pilot Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 29, 1997

LOAN NUMBER 4147 BR

LOAN AGREEMENT

AGREEMENT, dated July 29, 1997, between FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

WHEREAS (B) Parts C and D of the Project will be carried out by the Participating States (as hereinafter defined) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Participating States proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreements of even date herewith between the Bank and each Participating State;

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 relettered 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 cancelled."

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

(a) "Banco Central" means Banco Central do Brasil, the Borrower's Central Bank;

(b) "Beneficiary" means any civil association (associação civil) duly established in the Borrower's territory in accordance with the Borrower's laws, which: (i) has been selected to carry out a Community Subproject or Community Subprojects (as hereinafter defined) in accordance with the selection criteria prescribed in the Operational Manual (as hereinafter defined); and (ii) has obtained a Land Loan (as hereinafter defined) to purchase the necessary land for the carrying out of a Community Subproject or Community Subprojects;

(c) "Community Subproject" means any investment referred to in Part B of the Project to be carried out by a Beneficiary utilizing the proceeds of a Grant (as

hereinafter defined) and which meets the eligibility criteria set forth in the Operational Manual (as hereinafter defined);

(d) "CSFA" means Community Subproject Financial Agent, the financial institution referred to in Section 3.01 (b) (iv) of this Agreement, appointed by the Borrower to act as its financial agent in respect of Part B of the Project;

(e) "CSFA Arrangements" means the arrangements referred to in Section 3.01 (b) (iv) of this Agreement;

(f) "Grant" means a grant to be made or proposed to be made by the Borrower to a Beneficiary out of the proceeds of the Loan for the purposes of financing not more than 90% of the cost of a Community Subproject;

(g) "Grant Agreement" means each of the agreements, to be entered into among the CSFA, a Participating State (as hereinafter defined) and a Beneficiary, for the provision of a Grant;

(h) "Land Account" means the account referred to in Section 3.01 (b) (i) of this Agreement out of which Land Loans (as hereinafter defined) will be made available to the Beneficiaries;

(i) "Land Loans" means the loans referred to in Section 3.01 (b) (iii) (A) of this Agreement;

(j) "Land Loan Agreement" means each of the agreements, to be entered into between the LLFA (as hereinafter defined) and a Beneficiary, for the provision of a Land Loan;

(k) "LLFA" means Land Loan Financial Agent, the financial institution referred to in Section 3.01 (b) (iii) of this Agreement, appointed by the Borrower to act as its financial agent in respect of Part A of the Project;

(l) "LLFA Arrangements" means the arrangements referred to in Section 3.01 (b) (iii) of this Agreement;

(m) "NEAD" means Núcleo de Estudos Agrários e Desenvolvimento, the Borrower's Nucleus for Agrarian and Development Studies established pursuant to MEPF's (as hereinafter defined) Portaria No. 002 of March 6, 1997;

(n) "MEPF" means Ministro de Estado Extraordinário de Política Fundiária, the Borrower's Minister of Land Policy;

(o) "Operational Manual" means each manual issued by the relevant Participating State and the Borrower, satisfactory to the Bank, describing the priority areas to benefit from Project activities, and containing, inter alia, the overall operating procedures for the execution of the Project, including: (i) the operating procedures for regulating the functioning of the Land Account and the acquisition of land under Part A of the Project; (ii) the procedures and criteria related to training, technical assistance, environmental protection and other activities to be carried out under the Project; (iii) the criteria and procedures for the selection, and the procedures for the carrying out, of the Community Subprojects; and (iv) the standard form of a Grant Agreement; as such Operational Manual may be amended from time to time by agreement between the Bank, the Borrower and the Participating States (as hereinafter defined);

(p) "Participation Arrangements" means any of the arrangements referred to in Section 3.01 (b) (v) of this Agreement;

(q) "Participating State" means the State of Bahia, Ceará, Maranhão, Minas Gerais, or Pernambuco; and "Participating States" means all such States collectively;

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

(s) "Project Monitoring Letter" means the letter dated July 23, 1997 delivered by the Borrower's Minister of Land Policy 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;

(t) "State Annual Operating Plan" means any of the plans referred to in Section 2.05 of the Project Agreements;

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

(v) "STU" means the technical coordination unit referred to in Section 2.04 of each of the Project Agreements.

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 ninety million dollars (\$90,000,000), 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 June 30, 2001 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate 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 of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

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

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

than as provided in paragraph (a) of this Section.

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

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

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

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower 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 May 1 and November 1 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 MEPF of the Borrower, and the person or persons designated in writing by such Minister, 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, without any limitation or restriction upon any of its other obligations under this Agreement, shall, under the coordination of the MEPF:

(i) carry out Parts A and B of the Project with the participation of the Participating States; and (ii) carry out Part E of the Project; all with due diligence and efficiency, in conformity with the provisions of the Operational Manual and appropriate administrative, financial, environmental and land management practices, and substantially in accordance with the corresponding targets set forth in the Project Monitoring Letter, and shall provide, promptly as needed, the funds (except as provided in paragraph (b) (i) below), facilities, services and other resources required for such Parts of the Project.

(ii) take all necessary steps in order to ensure that each Participating State performs in accordance with the provisions of the relevant Project Agreement all the obligations of such Participating State therein set forth.

(iii) not take or permit to be taken any action which would prevent or interfere with the performance of such obligations by each Participating State.

(b) The Borrower, under the coordination of the MEPF, shall:

(i) pursuant to arrangements satisfactory to the Bank and for the

purposes of providing funds for Part A of the Project, open and thereafter operate and maintain, in the LLFA, an account (the Land Account) under terms and conditions satisfactory to the Bank, including that the Land Account shall: (A) be operated in accordance with the operating procedures set forth in the Operational Manual; (B) receive an annual deposit of not less than \$15,000,000 equivalent by March 31 (except in respect of the first year of Project implementation, as provided in subparagraph (ii) below) of each year of Project implementation, up to an aggregate amount equivalent to \$45,000,000; and (C) have its proceeds withdrawn solely for the purposes of providing funds for Part A of the Project.

(ii) in respect of the first year of Project implementation, and without limitation to the provisions of subparagraphs (i) (A) and (i) (C) above, deposit into the Land Account, in addition to the deposit referred to in Section 6.01 (b) of this Agreement, two installments of \$5,000,000 each by not later than two and four months, respectively, after the Effective Date.

(iii) enter into arrangements satisfactory to the Bank (the LLFA Arrangements), with a financial institution acceptable to the Bank (the LLFA), such arrangements to provide, inter alia, that LLFA shall:

(A) serve as the financial agent of the Borrower for purposes of making loans (the Land Loans) to Beneficiaries under Part A of the Project with the proceeds of the Land Account;

(B) enter into loan agreements with each Beneficiary (the Land Loan Agreements) providing for Land Loans only upon receiving the relevant STU's concurrence referred to in Section 2.04 (a) (ii) of the Project Agreements, such Land Loan Agreements to have terms and conditions satisfactory to the Bank, including, inter alia, provisions entitling LLFA to suspend or terminate the right of the Beneficiary to use the proceeds of the Land Loan upon failure by such Beneficiary to perform any of its obligations under the Land Loan Agreement; and

(C) enter into each Participation Arrangements pursuant to paragraph (v) below.

(iv) enter into arrangements satisfactory to the Bank (the CSFA Arrangements), with a financial institution acceptable to the Bank (the CSFA), such arrangements to provide, inter alia, that CSFA shall:

(A) serve as the financial agent of the Borrower for purposes of making grants (the Grants) to Beneficiaries under Part B of the Project with the proceeds of the Loan;

(B) enter into a grant agreement with each of the Beneficiaries (the Grant Agreement), and the relevant Participating State through the STU, to finance up to ninety percent of the costs of a Community Subproject which shall be carried out by the Beneficiary, such Grant Agreement to have the terms and conditions set forth in the standard form included in the Operational Manual; and

(C) enter into each Participation Arrangements pursuant to paragraph (v) below.

(v) enter into arrangements, satisfactory to the Bank, with each Participating State, CSFA and LLFA (the Participation Arrangements) for the purposes of:

(A) providing for the relationship and collaboration between

each Participating State, CSFA, and LLFA in respect of the carrying out of Parts A and B of the Project, respectively, as provided in the Operational Manual; and

(B) making available, to each Participating State the proceeds of the Loan required for the carrying out of such Participating State's activities under Parts C and D of the Project.

(c) The Borrower shall exercise its rights and comply with its obligations under the CSFA Arrangements, the LLFA Arrangements and each Participation Arrangements and each Grant 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 such arrangements or agreement, as the case may be, or any provision thereof.

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. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07 (a) and (b), 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts C and D of the Project shall be carried out by each Participating State pursuant to Section 2.03 of the relevant Project Agreement.

Section 3.04. The Borrower, under the coordination of the MEPF, shall, in a month fourteen months after the Effective Date, furnish to the Bank a report on the overall progress in the implementation of the Borrower's activities under Parts A, B and E of the Project.

Section 3.05. The Borrower, under the coordination of MEPF, shall participate in the reviews referred to in Section 2.06 (c) and (d) of the Project Agreements.

Section 3.06. The Borrower shall maintain, during Project implementation, a nucleus for agrarian and development studies (the NEAD) with staff in adequate numbers and with adequate qualifications, and with responsibilities, structure and functions satisfactory to the Bank.

Section 3.07. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall, with the assistance of the Participating States:

(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.

ARTICLE IV

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 Parts A, B and E of the Project, of the departments or agencies of the Borrower responsible for the carrying out of such Parts of the Project.

(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; and

(iii) 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, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, or cause to be retained, 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 or payment out of the Special 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 events are specified:

(a) any Participating State shall have failed to perform any of its obligations under the relevant Project Agreement; and

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

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

ARTICLE VI

Effective Date; Termination

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

(a) that the CSFA Arrangements, the LLFA Arrangements and the Participation

Arrangements have become effective;

(b) that the Land Account has been established and an initial deposit of at least \$5,000,000 equivalent has been made therein;

(c) that each Operational Manual has been adopted by the Borrower and by the respective Participating State; and

(d) that the Loan Agreement has been duly registered by Banco Central.

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:

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

(b) that each Project Agreement has been duly authorized or ratified by, and is legally binding upon, the respective Participating State in accordance with its terms.

Section 6.03. The date October 29, 1997 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, the Minister 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 Borrower:

Ministério da Fazenda
Procuradoria-Geral da Fazenda Nacional
Esplanada dos Ministérios - Bloco "P" - 8º andar
70048-900, Brasília, D.F.
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 e Orçamento
Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco "K" - 5º andar
70040-906, Brasília, D.F.
Brazil

Ministro de Estado Extraordinário de Política Fundiária
SBN - Palácio do Desenvolvimento 18º andar
70057-900, 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 the District of Columbia, United States of America, as of the day and year first above written.

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Paulo Tarso Flecha de Lima

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Javed Burki

Regional Vice President
Latin America and the Caribbean

WITNESS:

/s/ Raul Belens Jungmann

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) Grants	75,900,000	100% of the amounts disbursed
(2) Consultants' Services and publicity and training expenditures under Parts C and D of the Project	4,000,000	100%
(3) Consultants' Services under Part E of the Project	6,000,000	100%
(4) Administrative Costs:		
(a) incremental costs	1,100,000	20%
(b) Project supervision costs	1,500,000	50%

(5)	Unallocated	1,500,000
	TOTAL	90,000,000

2. For the purposes of this Schedule:

(a) the term "incremental costs" means costs incurred by each STU in connection with the carrying out of its respective activities under the Project, such as land title verification, environmental analyses of Community Subprojects, computer services and office equipment; and

(b) the term Project supervision costs means costs incurred by each STU in connection with the field supervision of Community Subprojects, such as travel expenses and per diems.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$300,000, may be made in respect of Category 3 on account of payments made for expenditures made before that date but after January 20, 1997 a date which is latter than or a date twelve months before the date of this Agreement, whichever is later;

(b) payments under a Grant unless the respective Grant Agreement shall have been entered into between the parties thereto; and

(c) unless the Bank shall otherwise agree, payments under a Grant for a Community Subproject estimated to cost more than the equivalent of \$50,000.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods and works costing less than the equivalent of \$100,000 each; (b) services of individual consultants costing less than the equivalent of \$50,000; and (c) services of consulting firms costing less than the equivalent \$100,000; all 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: (a) the reduction of rural poverty by providing the Participating States' rural poor with access to land and funds for other investments; and (b) the gathering and evaluation of experience derived from Project Implementation.

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: Land Acquisition

Provision of loans for land acquisition by the Beneficiaries for the carrying out of Community Subprojects.

Part B: Community Subprojects

Financing of small scale community investments, including technical assistance, consisting, inter alia, of: (a) infrastructure investments such as rural water supply, electrification, local road improvements and construction of small bridges; (b) social investments such as construction and rehabilitation of schools and health posts; and (c) other investments such as small-scale community agro-processing, purchase of agricultural equipment, development of minor irrigation schemes, transportation, and purchase of building materials.

Part C: Community Development Support and Project Dissemination at the Participating State Level

Strengthening of the quality and effectiveness of Project activities through:

1. Provision of technical assistance and training for Beneficiaries and potential Beneficiaries in, inter alia, community mobilization and organization, preparation of Community Subprojects, and operation and maintenance of investments.
2. Design and carrying out of information campaigns within the Participating States' territory to disseminate information about the Project, through, inter alia, posters, radio spots, leaflets and videos.

Part D: Project Administration at the Participating State Level

Strengthening of the capacity of the STUs, their field offices and other agencies of the Participating States in respect of Project coordination, supervision and monitoring through the provision of technical assistance, training and office equipment and the financing of incremental costs.

Part E: Project Evaluation and Dissemination at the Borrower's Level

1. Carrying out of an evaluation study of the impact of specific land reform programs (including an evaluation of the impact of the Project) conducted at the State and at the national levels.
2. Carrying out of studies relating to land policy issues, including, inter alia, analysis of land prices, availability of lands for sale, land holdings by commercial banks, the effect of a market-assisted land reform on land markets, and institutional and financial options for the Borrower's land reform program.
3. Carrying out of seminars and training to document and disseminate Project results.
4. Supporting of the activities to be carried out by the NEAD through the provision of consultants' services and data processing services.

* * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

Payment of Principal	Date Payment Due (expressed in dollars)
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On each May 1 and November 1

beginning November 1, 2002 through May 1, 2004	4,500,000
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* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

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

Time of Prepayment	Premium
applicable to Loan on the day of prepayment multiplied by:	The interest rate (expressed as a percentage per annum the
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	1.00

SCHEDULE 4

Procurement and Consultants' Services

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: Procurement Procedures

1. National Competitive Bidding

Except as provided in Parts B.2, B.3 and B.4 hereof, goods and works 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 in accordance with this Part B.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 B.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 a joint-venture (consórcio) 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.

(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. National Shopping

Except as provided in Part B.4 hereof, goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount equivalent to \$2,400,000, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Except as provided in Part B.4 hereof, works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount equivalent to \$1,500,000, may be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from 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 successfully complete the contract.

4. Community Participation

Goods and works, financed by Grants under Part B of the Project for Community 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 Operational Manual.

Part C: 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 to be awarded pursuant to the provisions of Part B.1 of this Section, the procedures 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 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank for the use of its borrowers, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) 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 \$15,000,000, or such other amount as the Bank shall establish, to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in 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, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall 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.

