

CONFORMED COPY

LOAN NUMBER 2864 BR

(Livestock Disease Control Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 27, 1987

LOAN NUMBER 2864 BR

LOAN AGREEMENT

AGREEMENT, dated July 27, 1987, between FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself 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; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

- (a) "MINAGRI" means the Borrower's Ministry of Agriculture;
- (b) "CESA and FESA Accounts" means the accounts referred to in Section 2.02 (b) and (c) of this Agreement;
- (c) "CESA" means the local expenditures special account to be opened pursuant to Section 2.02 (b) of this Agreement;
- (d) "FESA" means the foreign exchange expenditures special account to be opened pursuant to Section 2.02 (c) of this Agreement;
- (e) "Account Bank" means Central Bank in respect of CESA and the bank referred to in Section 2.02 (c) of this Agreement in respect of FESA;
- (f) "Central Bank" means Banco Central do Brasil;
- (g) "Cruzado" means the currency of the Borrower;
- (h) "Project Area" means the states of Rio Grande do Sul, Santa Catarina, Parana, Sao Paulo, Minas Gerais, Rio de Janeiro, Espirito Santo, Mato Grosso, Mato Grosso do Sul, Goias Pernambuco, Ceara, Bahia and Sergipe and the Distrito Federal;
- (i) "State Veterinary Services" means the Veterinary Services operated by the States and the Distrito Federal in the Project Area;
- (j) "SDSA" means the Borrower's Secretaria de Defesa Sanitaria Animal within its Ministry of Agriculture;
- (k) "LANARA" means the Borrower's Sistema Nacional de Laboratorios de Defesa Nacional within its Ministry of Agriculture;
- (l) "EMBRATER" means the Borrower's Empresa Brasileira de Assistencia Tecnica e Extensao Rural; and
- (m) "EMBRAPA" means the Borrower's Empresa Brasileira de Pesquisa Agropecuaria.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to fifty-one million dollars (\$51,000,000).

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

(b) The Borrower shall, for the purposes of the Project, open and thereafter maintain in the Central Bank an account in dollars on terms and conditions satisfactory to the Bank. Disbursement out of this account (hereinafter called CESA) shall be made exclusively to meet expenditures in cruzados incurred in respect of the reasonable cost of goods and services required to carry out the Project and to be

financed by the Bank pursuant to paragraph (a) above.

(c) The Borrower shall, for the purposes of the Project, open and thereafter maintain in a bank, acceptable to the Bank, an account in dollars on terms and conditions satisfactory to the Bank. Disbursements out of this account (hereinafter called FESA) shall be made exclusively to meet expenditures in currencies other than cruzados incurred in respect of the reasonable cost of goods and services required to carry out the Project and to be financed by the Bank pursuant to paragraph (a) above.

(d) Deposits into, and payments out of, CESA and FESA shall be made in accordance with the provisions of Schedule 5 to this Agreement. The Borrower shall cause the Account Bank to furnish to the Bank each month certified statements of CESA and FESA.

Section 2.03. The Closing Date shall be March 31, 1994 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

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

Section 2.06. Interest and other charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.08. The Minister of Agriculture is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 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: (i) carry out Parts A through C of the Project through MINAGRI; and (ii) cause, under contractual arrangements, the State Veterinary Services to carry out Part D of the Project; all with due diligence and efficiency and in conformity with appropriate administrative, financial, managerial and veterinary practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to its obligations under paragraph (a) above, the Borrower shall: (i) cause the Central Bank to provide advances in cruzados into a project account to be opened and operated by MINAGRI for purposes of the Project, pursuant to the terms of the agreement between the Borrower and the Central Bank, dated April 5, 1984, providing therefor; and (ii) unless the Bank shall otherwise agree, not assign, amend, abrogate, fail to comply with or waive such agreement 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 Borrower shall maintain at all times an institutional development unit within SDSA for purposes of the Project with functions, organizational structure, management and staffing in numbers and with qualifications satisfactory to the Bank.

Section 3.04. The Borrower shall: (a) through SDSA, carry out its obligations under the agreement entered into with EMBRATER on June 10, 1987, which, includes, inter alia, their respective obligations and responsibilities regarding animal disease prevention in the Project Area;

(b) through LANARA, carry out its obligations under the agreement entered into with EMBRAPA on January 27, 1987, as amended on June 10, 1987, which includes, inter alia, their respective rights and obligations regarding the use of the Pedro Leopoldo Laboratory and LANARA's obligation to carry out diagnostic work for EMBRAPA;

(c) through MINAGRI, enter into an agreement with each of the States and the Federal District in the Project Area under terms and conditions satisfactory to the Bank which shall include: (i) the Borrower's obligation to transfer the proceeds of the Loan allocated for Part D of the Project to the respective State Veterinary Services; (ii) the respective State Veterinary Service's obligation: (A) to appoint a qualified and experienced project coordinator to facilitate coordination with Federal agencies in the execution of Part D of the Project; (B) to carry out, unless otherwise agreed by MINAGRI and the Bank, in each year, the activities specified for such State Veterinary Service in the approved annual operating plans referred to in Section 3.05 (b) of this Agreement; and (C) to comply with the auditing, reporting, procurement and other applicable obligations set forth or referred to in this Agreement in respect of such Part D of the Project; and

(d) exercise its rights under the agreements referred to in paragraphs (a), (b) and (c) of this Section in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive such agreements or any provision thereof.

Section 3.05. The Borrower shall, through SDSA: (a) not later than August 31 each year furnish to the Bank for its review and comments, the guidelines for the preparation of the proposed annual operating plans for activities under the Project for the following year; and (b) not later than November 30 of each year, furnish to the Bank the consolidated annual operating plans for all parts of the Project for the following year.

Section 3.06. Without limitation to Section 9.07 (a) of the General Conditions, the Borrower shall: (a) not later than October 31 and April 30 of each year, submit to the Bank semi-annual reports on the progress of the Project covering the semesters ending June 30 and December 31, respectively; (b) not later than December 31, 1990 carry out a review of the implementation of the Project with terms of reference and under institutional arrangements satisfactory to the Bank; and (c) on the basis of the recommendations of such review agreed with the Bank, draft the statutory or administrative provisions pertaining to public animal health that may be required to put into effect such recommendations.

Section 3.07. The Borrower shall, not later than September 30, 1988, revise and

put into effect a system of fees on: (a) importers of live animals for the use of quarantine facilities which shall cover the full operational cost of the facilities; and (b) commercial companies that produce animal health products which shall cover the full cost of product registration and quality control of health products.

Section 3.08. The Borrower shall, not later than May 31, 1988, elaborate, under the coordination of MINAGRI and with exchange of views with the Bank, a medium-term strategy for livestock sector development satisfactory to the Borrower and the Bank.

Section 3.09. The Borrower shall, through SDSA and LANARA purchase, or assign, or cause the State Veterinary Services to purchase or assign, exclusively for the Project and on a timely basis, the respective vehicles specified in Schedule 6 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall: (i) maintain or cause to be maintained separate records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of Parts A through C of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof; and (ii) under contractual arrangements, cause the State Veterinary Services to maintain separate records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of Part D of the Project.

(b) The Borrower shall:

(i) (A) have the records and accounts referred to in paragraph (a) (i) of this Section including those for the CESA and FESA Accounts for each fiscal year audited, and (B) cause the State Veterinary Services to have the records and accounts referred to in paragraph (a) (ii) of this Section audited; all in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish, and cause the State Veterinary Services to 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, and cause the State Veterinary Services to 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 and cause the State Veterinary Services to maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, and cause the State Veterinary Services to retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, 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 audits referred to in paragraph (b) of this Section and that the report of such audits 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 (k) of the General Conditions, the following additional events are specified:

(a) EMBRATER or EMBRAPA shall have failed to perform any of their obligations under the agreements referred to in Sections 3.04 (a) and (b) of this Agreement.

(b) Any State, the Federal District or any State Veterinary Service shall have failed to perform any of their obligations under any agreement referred to in Section 3.04 (c) of this Agreement.

(c) The regulations referred to in Section 6.01 (c) of this Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to carry out the Project.

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 paragraphs (a) or (b) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 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 Loan Agreement has been registered by the Central Bank;

(b) that the Borrower shall have provided evidence, satisfactory to the Bank, of the allocation of adequate funds in the Ministry of Agriculture's budget for 1987 and in its draft budget for 1988 as counterpart funds from the Borrower for the implementation of the Project; and

(c) that the Borrower has put into effect the system of advances referred to in Section 3.01 (b) of this Agreement.

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 the Loan Agreement has been registered by the Central Bank.

Section 6.03. The date October 27, 1987, 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 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:

Ministerio da Fazenda
Esplanada dos Ministerios
Bloco 5-5o andar
70048, Brasilia, D.F.
Brazil

Cable address:

MINIFAZ
Brasilia, Brazil

Telex:

611142 M NFA BR

With copy to:

Minister of Agriculture
Ministerio da Agricultura
Esplanada dos Ministerios
Bloco D 8o Andar
Brasilia, Brazil

Cable address:

MINAGRI

Telex:

(061) 1138
(061) 1930

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

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/ Luiz Carlos Bresser Pereira

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain

Regional Vice President
Latin America and the Caribbean

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	4,400,000	50%
(2) Salaries and per diems	14,000,000	60%
(3) Consultants' Services and Studies	1,800,000	100%
(4) Overseas Training	2,000,000	100% of foreign expenditures
(5) Other Training	2,700,000	50%
(6) Goods (other than vehicles and computers)	5,000,000	100% of foreign expenditures and 50% of local expenditures
(7) Inputs and Materials	16,600,000	100% of foreign expenditures and 50% of local expenditures
(8) Unallocated	4,500,000	
	<hr/>	
TOTAL	51,000,000	

2. For the purposes of this Schedule:

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

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

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 \$800,000, may be made in respect of Categories (1), (3), (4) and (5) on account of payments made for expenditures before that date but after March 1, 1987; and

(b) payments made for expenditures incurred by, or on behalf of or for the benefit of, any State Veterinary Service, unless the Bank has been furnished with evidence satisfactory to the Bank that the agreement referred to in Section 3.04 (c) of this Agreement, and to which the State Veterinary Service in question is a party, has been executed to the satisfaction of the Bank.

4. Notwithstanding the allocation of an amount of the Loan or the disbursement percentages set forth in the table in paragraph 1 above, the disbursement percentage

for Category (2), may be reduced by the Bank to: (a) 30% once the aggregate amount of disbursements made under such Category shall have reached the amount of \$8,000,000; and (b) 10% once the aggregate amount of disbursements made under such Category shall have reached the amount of \$13,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to increase livestock productivity by decreasing production losses resulting from livestock diseases affecting, in particular, cattle, pigs and poultry in the Project Area; and (ii) to improve veterinary services in the Borrower's territory.

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

Part A: SDSA Institutional Development

Institutional development program for SDSA including:

- (1) Recruitment of about 80 professional staff and related operational support staff to increase coordination at headquarters and surveillance of activities at the state level;
- (2) Training of staff in management, disease control (in particular epidemiology, parasitology and biological control) and cost-benefit analysis through seminars, and short and post-graduate courses;
- (3) Provision of consultant services for organization and systems and cost-benefit analysis, human resource development and review of legislation pertaining to animal health and studies of animal diseases for monitoring and evaluation purposes; and
- (4) Acquisition and utilization of field equipment.

Part B: LANARA Institutional Development

Institutional development program of LANARA, including:

- (1) Recruitment of about 13 professional staff, as well as related operational support staff for the headquarters offices in Brasilia;
- (2) Recruitment of about 107 professional staff, mostly scientists, as well as laboratory technicians and auxiliaries for nine federal laboratories;
- (3) Training of technicians and auxiliary staff in laboratory techniques, and of about 30 professional staff in post-graduate courses; and
- (4) Provision of consultants' services for epidemiological studies, and diagnostic and other laboratory work.

Part C: Infrastructure Upgrading

Improvement of the facilities of federal and state laboratories and quarantine stations, including:

- (1) Upgrading of buildings: in Pedro Leopoldo, Porto Alegre, Campinas, Castro, San Jose, Brasilia, Salvador, Recife and Belem federal laboratories; in one State laboratory in Rio Grande do Sul; in the Panamerican Center for Foot-and-Mouth Disease; and in the following quarantine stations in the Sao Paulo and Rio de Janeiro airports and at the border town of Uruguaiana and Foz do Iguacu, mainly to reduce the possibilities of virus escape; and
- (2) Acquisition and utilization of laboratory equipment required to improve the diagnostic capabilities of such laboratories and their quality control of vaccines, drugs and chemical residues in food products and animal feed.

Part D: Institutional Development of State Veterinary Services

Institutional development program for the State Veterinary Services, including:

- (1) Training of about 1500 veterinarians in, inter alia, epidemiology, cost-benefit analysis and management skills through seminars and short courses;
- (2) Increasing of staff mobility, and of farmer outreach, and mass communication programs; and
- (3) Acquisition and utilization of field equipment.

* * * * *

The Project is expected to be completed by September 30, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each April 15 and October 15	
beginning October 15, 1990 through April 15, 2002	2,125,000

* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
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percentage	The interest rate (expressed as a per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Brazil may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto, provided, however, that:

1. All bidding documents for the procurement of goods shall clearly indicate any preference which would be granted, the information required to establish the eligibility of a bid for such preference and the following methods and stages that will be followed in the evaluation and comparison of bids.
2. After evaluation, responsive bids will be classified in one of the following two groups:

(1) Group A: bids offering goods manufactured in Brazil if the bidder shall have established to the satisfaction of the Borrower and the Bank that such goods contain components manufactured in Brazil equal to at least 50% of the value of the complete goods.

(2) Group B: bids offering any other goods.

3. In order to determine the lowest evaluated bid of each group, all evaluated bids in each group shall first be compared among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, and sales and similar taxes levied in connection with the sale or delivery, pursuant to the bids, of the goods. Such lowest evaluated bids shall then be compared with each other, and if, as a result of this comparison, a bid from group A is the lowest, it shall be selected for the award.

4. If, as a result of the comparison under paragraph 3 above, the lowest evaluated bid is a bid from group B, all group B bids shall be further compared with the lowest evaluated bid from group A after adding: (i) to the c.i.f. bid price of goods to be imported in each group B bid an amount equal to the smaller of: (A) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in such group B bid; or (B) 15% of the c.i.f. bid price of such goods, and (ii) to the ex-factory bid price of goods supplied domestically offered in each group B bid an amount equal to the smaller of: (A) the amount of customs duties and other import taxes which would be levied on the goods offered in such group B if they originated from the same foreign country as the bid included in group B which enjoys the lowest customs duties and other import taxes, or (B) 15% of the ex-factory bid price of such goods. If, as a result of this comparison, the bid from group A is the lowest, it shall be selected for the award; if not, the lowest evaluated bid from group B, as determined under paragraph 3 above, shall be selected for the award.

Part C: Other Procurement Procedures

1. Local competitive bidding:

(a) Civil works, and (b) except as provided in Part C.2 below, goods estimated to cost less than \$250,000 per contract up to an aggregate of \$14,000,000 shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Local Shopping:

Goods estimated to cost less than the equivalent of \$20,000 per contract, up to an aggregate amount not to exceed the equivalent of \$8,200,000, may be procured under contracts awarded on the basis of a comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for: (i) civil works estimated to cost the equivalent of \$1,000,000 or more, and (ii) goods estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the CESA and FESA Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c)(ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of

employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories 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 \$2,200,000 and to \$300,000 to be withdrawn from the Loan Account and deposited in the CESA and FESA, respectively, pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the CESA or FESA, as the case may be, shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule. The Account Bank shall authorize withdrawals from the CESA or FESA, as the case may be, on the basis of the evidence that the Bank shall have reasonably determined. For each such withdrawal so authorized, the Account Bank shall debit or cause to be debited CESA or FESA, as the case may be, with the dollar equivalent of the amount of the eligible expenditures in question in cruzados, in the case of CESA, or with the actual dollar amount or the dollar equivalent of the eligible expenditures in currencies other than dollars or cruzados, in the case of FESA.

3. After the Bank has received evidence satisfactory to it that CESA and FESA have been duly opened, withdrawals of the corresponding Authorized Allocation and subsequent withdrawals to replenish CESA or FESA, as the case may be, may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the corresponding Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in CESA or FESA, as the case may be, such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of CESA and FESA, as the case may be, at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into CESA or FESA, as the case may be, such amounts as shall be required to replenish CESA or FESA, as the case may be, with amounts not exceeding the amount of payments made out of CESA or FESA, as the case may be, 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of CESA or FESA, as the case may be, for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank may deny any request for a further deposit into CESA or FESA when either of the following situations first arises:

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

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the corresponding Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in CESA or FESA, as the case may be, 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 CESA or FESA (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, deposit into CESA or FESA, as the case may be, (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Bank into CESA or FESA shall be made until the Borrower shall have made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in CESA or FESA will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account and immediate cancellation.

SCHEDULE 6

Vehicle Purchases or Assignments

The following are the vehicles to be purchased or assigned, subject to such modifications as the Borrower and the Bank may agree upon from time to time:

Executing Entity	Type of Vehicle	Number
LANARA-Brasilia	sedan	5
LANARA-Laboratories	sedan	9
SDSA	sedan	5
SDSA-SERSA	pickup	70
State Veterinary Services	pickup	900

