

CONFORMED COPY

LOAN NUMBER 2895 BR

(Minas Gerais Forestry Development Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 30, 1988

LOAN NUMBER 2895 BR

PROJECT AGREEMENT

AGREEMENT, dated September 30, 1988, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BANCO DE DESENVOLVIMENTO DE MINAS GERAIS (BDMG).

WHEREAS (A) by the Loan Agreement of even date herewith between State of Minas Gerais (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to forty eight million five hundred thousand dollars (\$48,500,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that BDMG agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary agreement to be entered into between the Borrower and BDMG, part of the proceeds of the loan provided for under the Loan Agreement will be made available to BDMG on the terms and conditions set forth in said Subsidiary Agreement; and

WHEREAS BDMG, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project; Management and Operations of BDMG

Section 2.01. (a) BDMG declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and to this end, shall carry out Part A of the Project and conduct its operations and affairs, in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with its Charter and Statement of Policy.

(b) As part of the foregoing, BDMG shall enter into agreements (the Participation Agreements), satisfactory to it and the Bank, with each Participating Bank to define the terms and conditions of the participation of such Participating Bank in the execution of Part A of the Project, such agreement to provide, inter alia, for: terms and conditions of lending by BDMG to the Participating Bank (which shall be the same as for Sub-loans with a spread for the Participating Bank of 1.5 percentage points below the corresponding Sub-loan interest rate), the terms for Sub-loans, Investment Project appraisal and supervision guidelines, reporting requirements, accounting, auditing, procurement and disbursement and sub-loan approval procedures, including those set forth or referred to in Schedules 1 and 2 to this Agreement.

(c) Prior to entering into a Participation Agreement, BDMG shall request Bank approval of the respective Participating Bank and, for such purposes, shall furnish to the Bank all the financial, institutional and operational information on such Participating Bank as the Bank may reasonably request.

Section 2.02. (a) BDMG undertakes that, unless the Bank shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

(b) BDMG shall exercise its rights and cause the Participating Banks to exercise their rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank and of BDMG; (ii) comply with its obligations under this Agreement, and, where applicable, the Subsidiary Agreement or the Participation Agreement; and (iii) achieve the purposes of the Project.

Section 2.03. BDMG shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and Part A of the Project.

Section 2.04. BDMG shall duly perform all its obligations under the Subsidiary Agreement and all Participation Agreements. Except as the Bank shall otherwise agree, BDMG shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Agreement or any Participation Agreement or any provision thereof.

Section 2.05. (a) BDMG shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Agreement and the Participation

Agreement, and other matters relating to the purposes of the Loan.

(b) BDMG shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by BDMG of its obligations under this Agreement and under the Subsidiary Agreement or the Participating Banks under the Participation Agreements.

ARTICLE III

Financial Covenants

Section 3.01. (a) BDMG shall maintain records and accounts adequate to reflect, in accordance with consistently maintained sound accounting practices its operations and financial condition, including separate records and accounts for the Project.

(b) BDMG shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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: (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, BDMG 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 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 IV

Effective Date; Termination;
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of BDMG

thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify BDMG thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

For BDMG:

Banco de Desenvolvimento de Minas Gerais
Rua da Bahia 1600
Belo Horizonte, Minas Gerais
30160 Brazil

Telex:

(031) 1343

with copy to:

Secretaria de Planejamento e Coordenação Geral
Rua Bernardo Guimarães 2731
Belo Horizonte, Minas Gerais
30140 Brazil

Telex:

318211
SEPLAN-MG

Section 5.02. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Everardo Wessels

Regional Vice President
Latin America and the Caribbean

BANCO DE DESENVOLVIMENTO DE MINAS GERAIS

By /s/ Alipio Pires Castello Branco

Authorized Representative

SCHEDULE 1

1. Terms and conditions of lending operations:

(a) Amount of Sub-loans

Each Sub-loan may finance up to 80% of the estimated cost (including planting and maintenance costs and excluding the cost of land) of the Investment Project, provided, however, that the percentage of the estimated cost of the Investment Project to be financed by any given Sub-loan shall be lower than 80 if such reduction is necessary to ensure that the aggregate amount of Sub-loans (including the Sub-loan in question) for which BDMG and the Participating Banks have entered into contracts shall not exceed, on the date of entering into the contract for the Sub-loan in question, 50% of the estimated aggregate cost of the corresponding Investment Projects. The balance between the amount of the Sub-loan and the cost of the Investment Project, shall be financed by the Investment Enterprise from other sources, including an amount of not less than 20% from its own resources. The 20% amount to be financed by the Investment Enterprise shall not include any Fiset funds and in no event the percentage of Fiset funds in the financing of an Investment Project shall exceed 30% of the cost of such Investment Project.

(b) Repayment Period

The repayment period will not exceed: (i) fourteen years, including a grace period not to exceed seven years, for the financing of forest plantations for the production of fuelwood, charcoal, pulp wood and other wood products; and (ii) four years, including a grace period not to exceed one year, for the financing of charcoal production equipment and related facilities.

(c) Interest Rate

(i) The Investment Enterprise shall pay interest on the principal amount of the Sub-loan withdrawn and outstanding at a rate per annum equal to up to two percentage points above the interest rate specified in Section 2.05 of the Loan Agreement.

(ii) Notwithstanding the provisions of paragraph (i) above, the actual interest applicable to Sub-loans shall not exceed: (A) 10% per annum for Sub-loans made by BDMG or a Participating Bank before October 2, 1989; and (B) 11% per annum for Sub-loans made thereafter.

(d) Adjustment of principal

The outstanding principal amount of each Sub-loan will be adjusted monthly on the basis of the variations of the OTN value, to provide for full monetary correction of such principal amounts.

(e) BDMG and the Participating Banks will appraise the Investment Enterprises and the Investment Project in accordance with the BDMG Criteria.

2. BDMG shall, not later than October 30 each year, review with the Bank the onlending terms and conditions referred to in paragraph 1 above, including the application of the variations of the OTN value as the basis for adjustment for full monetary correction. If, by November 30 of such year, the Bank, the Borrower and BDMG shall not have reached an agreement on the onlending terms to be applied to new Sub-loans, the Bank may refrain from approving or authorizing new Sub-loans pursuant to paragraph 3 of this Schedule.

3. Approval of Sub-loans:

No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan is a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Sub-loan.

For the purposes of this Agreement, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$4,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of: (i) the Loan or (ii) any other loan, provided for in any outstanding loan agreement between the Bank and the Borrower or the Guarantor, which have been or are being used for financing goods and services directly and materially related to such Investment Project; provided, however, that the first two Sub-loans made under the Project shall not be free-limit Sub-loans regardless of their amount.

4. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) proposed to be made by itself or by a Participating Bank, to the Bank for approval, BDMG shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan or Investment, including the schedule of amortization of the Sub-loan; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower or BDMG for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and (ii) the terms and conditions of the free-limit Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before December 31, 1991.

5. Rules applicable to Investment Enterprises benefitting from a Sub-loan:

Sub-loans shall be made on terms whereby BDMG or the Participating Bank, as the case may be, shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank, BDMG and the Participating Bank, as the case may be, including, the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical,

financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Bank (if the Bank shall so request), such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or Installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Bank, BDMG or the Participating Bank, as the case may be, shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the estimated benefits to be derived from the Investment Project;

(f) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with BDMG or the Participating Bank, as the case may be; and

(g) require that:

(i) the Investment Enterprise shall maintain records and accounts to reflect, in accordance with consistently maintained sound accounting practices, its operations and financial condition, including separate records and accounts for the Investment Project;

(ii) the Investment Enterprise shall retain records evidencing all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure;

(iii) the Investment Enterprise shall: (A) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; and (B) furnish to BDMG or the respective Participating Bank not later than six months after the end of each fiscal year, certified copies of their financial statements for such year as so audited and the report of such audit by said auditors, including separate opinions 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.

SCHEDULE 2

Accounting and Auditing Requirements for Participating Banks

1. Participating Banks shall maintain separate records and accounts to reflect, in accordance with consistently maintained sound accounting practices, their operations, resources and expenditures in respect of the Project.

2. Participating Banks shall: (i) have the records and accounts referred to in 1 above and the financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; and (ii) furnish to the Bank, through BDMG, not later than six months after the end of each fiscal year, certified copies of their financial statements for such year as so audited and the report of such audit by said auditors.

