Public Disclosure Authorized

Public Disclosure Authorized

7598

CONFORMED COPY

LOAN NUMBER 1195 BR

Loan Agreement

(Rio Grande do Norte Rural Development Project)

BETWEEN

FEDERATIVE REPUBLIC OF BRAZIL

AND

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

DATED MARCH 1, 1976

CONFORMED COPY

LOAN NUMBER 1195 BR

Loan Agreement

(Rio Grande do Norte Rural Development Project)

BETWEEN

FEDERATIVE REPUBLIC OF BRAZIL

AND

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

DATED MARCH 1, 1976

LOAN AGREEMENT

AGREEMENT, dated March 1, 1976, between FEDERATIVE REPUBLIC OF BRAZIL (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated March 15, 1974, with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, 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) "State" means the State of Rio Grande do Norte of the Borrower and includes any successor thereto;

(b) "Project Agreement" means the agreement between the State and the Bank of even date herewith, as the same may be amended from time to time;

(c) "Project area" means an area of about 21,000 km^2 covering 53 *municípios* in the State;

(d) "Phase I" means the first stage of the Project, expected to be carried out within the first three years after commencement of execution of the Project and focusing, unless otherwise agreed upon between the Borrower and the Bank, on the following representative *municípios*: Parelhas, Florania, Serra Negra do Norte, Jardim de Piranhas, Umarizal, Lucrécia, Almino Afonso, Rafael Godeiro, Olho d'Agua dos Borges, Alexandria and Antônio Martins, covering about twenty per cent (20%) of the cultivated land in the Project area;

(e) "Phase II" means the second stage of the Project, expected to commence in the third year after commencement of execution of the Project, to expand the actions developed and tested during Phase I to all of the Project area;

(f) "PROAGRO" means Programa de Garantia da Atividade Agropecuária, created by Law No. 5969, dated December 11, 1973, of the Borrower;

(g) "Project Unit" means the *Unidade Técnica* created by *Decreto* No. 6708, dated September 2, 1975, of the State, and referred to in Section 3.01(c) of this Agreement;

(h) "POLONORDESTE" means the special development program for the Northeast of Brazil, established pursuant to *Decreto* No. 74794, dated October 30, 1974, of the Borrower;

(i) "Reference Value" means the monetary correction factor periodically established by the Borrower pursuant to Law No. 6205, dated April 29, 1975, of the Borrower, to replace the monetary correction factor based on the minimum monthly salary; and

(j) "Special Group" means the Special Coordinating and Monitoring Group of POLONORDESTE created by *Portaria Interministerial* No. 41, of April 16, 1975.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to twelve million dollars ($12,000,000) *

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank, 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.

Section 2.03. Except as the Bank shall otherwise agree, the goods, works and services (other than consultants' services) for the Project to be financed out of the proceeds of the Loan shall be procured as follows:

(a) the construction of health posts and health centers shall be procured through a combination of self-help, force account and bidding in accordance with the Borrower's normal procurement procedures;

(b) farm inputs shall be procured through local commercial channels; and

(c) equipment, including small vehicles, shall be procured on the basis of competitive bidding in accordance with the Borrower's normal procurement procedures.

Section 2.04. The Closing Date shall be June 30, 1981 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. The Borrower shall pay interest at the rate of eight and one-half per cent (8-1/2%) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semi-annually on January 1 and July 1 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.09. Banco Central do Brasil 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 shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and agricultural practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Except as the Bank shall otherwise agree, the Borrower shall not start the execution of any part of Phase II until a complete report of the progress of Phase I, as of March 31, 1978, or such other date as the Borrower and the Bank shall agree, has been sent by the Borrower to the Bank and the progress

reflected in such report has been considered satisfactory to the Bank. Such report shall be sent to the Bank by April 30, 1978, or such other date as the Borrower and the Bank shall agree.

(c) For the purpose of coordinating the carrying out of the Project, the Borrower shall maintain a Project Unit within Comissão Estadual de Planejamento Agrícola of the State, which shall be adequately staffed with a Project coordinator, a financial controller, and other experienced and qualified staff including, except as the Bank shall otherwise agree, advisors for farm trial and experimentation programs, extension services, credit to small farmers, human resources and cooperatives and marketing.

Section 3.02. (a) Consultants who may be employed by the Borrower or the Project Unit to assist in the carrying out of Part G of the Project, shall have qualifications, experience and terms and conditions of employment satisfactory to the Bank.

(b) For the purposes of carrying out Part F of the Project, the Borrower shall establish a separate monitoring group, within the Project Unit, staffed with at least two full-time professionals experienced in research in social or economic fields and to be assisted, if necessary, by consultants in work design, data processing, analysis and interpretation.

Section 3.03. (a) The Borrower shall cause Banco Central do Brasil, in its capacity as the Borrower's financial agent, to enter into agreements with Banco do Brasil S.A. and Banco do Nordeste do Brasil S.A., whereby such banks will undertake to adopt the lending policies and procedures set forth in Schedule 4 to this Agreement for the purposes of carrying out Part B of the Project. The Borrower shall promptly inform the Bank of the interest rates to be charged under the loans included in Part B of the Project and of any modification thereof.

(b) The Borrower undertakes: (i) to make annual reviews of the progress made in expanding lending to small farmers in the Project area, the terms and conditions under which funds for the carrying out of Part B of the Project are provided to Banco do Brasil S.A. and Banco do Nordeste do Brasil S.A. and on-lent to small farmers, such conditions including *inter alia* the interest rate spread for such banks, and the relationship of such conditions to the satisfactory expansion of lending to small farmers; (ii) each year by November 30, or such other date as the Bank shall agree, to present the report on such review and recommendations for further action to the Bank for an exchange of views thereon; and (iii) to carry out the actions that may be agreed following such exchange of views.

(c) The Borrower shall use its best efforts to cause the repayment of the loans under Part B of the Project to be guaranteed under the PROAGRO scheme.

Section 3.04. (a) The Borrower shall cause the credit terms for acquisition of land in the Project area to be *inter alia* as follows: (i) credit shall be available to finance the total price of the land; and (ii) the credit shall be repaid in a period of up to 20 years, including a grace period of up to 5 years.

(b) The Borrower shall promptly inform the Bank of the interest rate to be charged under the credits referred to in the precedent paragraph (a) of this Section and of any modification thereof.

Section 3.05. The Borrower shall, not later than December 31, 1977 or such other date as the Bank shall agree, prepare a work program satisfactory to the Bank for the execution of Part G of the Project.

Section 3.06. The Borrower shall cause: (i) each executing agency participating in the Project to prepare jointly with the Project Unit an annual plan covering actions to be taken under the Project during the year: and (ii) such annual plans, as approved by the Special Group, to be sent each year by August 31, or such other date as the Bank shall agree, to the Bank for approval.

Section 3.07. Except as the Bank shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for the Project.

Section 3.08. (a) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans, specifications, reports, contract documents and work and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Bank shall reasonably request.

(b) The Borrower: (i) shall maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Loan, and to disclose the use thereof in the Project; (ii) shall enable the Bank's accredited representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents; and (iii) shall furnish to the Bank all such information as the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan and the goods and services financed out of such proceeds.

ARTICLE IV

Other Covenants

Section 4.01. (a) It is the policy of the Bank, in making loans to, or with the guarantee of, its members not to seek, in normal circumstances, specific security from the member concerned but to ensure that no other external debt shall have priority over its loans in the allocation, realization or distribution of foreign exchange held under the control or for the benefit of such member. To that end, if any lien shall be created on any public assets (as hereinafter defined), as security for any external debt, which will or might result in a priority for the benefit of the creditor of such external debt in the allocation, realization or distribution of foreign exchange, such lien shall, unless the Bank shall otherwise agree, *ipso facto* and at no cost to the Bank, equally and ratably secure the principal of, and interest and other charges on, the Loan, and the Borrower, in creating or permitting the creation of such lien, shall make express provision to that effect; provided, however, that, if for any constitutional or other legal reason such provision cannot be made with respect to any lien created on assets of any of its political or administrative subdivisions, the Borrower shall promptly and at no cost to the Bank secure the principal of, and interest and other charges on, the Loan by an equivalent lien on other public assets satisfactory to the Bank.

(b) The foregoing undertaking shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(c) As used in this Section, the term "public assets" means assets of the Borrower, of any political or administrative subdivision thereof and of any entity owned or controlled by, or operating for the account or benefit of, the Borrower or any such subdivision, including gold and other foreign exchange assets held by any institution performing the functions of a central bank or exchange stabilization fund, or similar functions, for the Borrower.

Section 4.02. The Borrower shall: (i) cause the Project Unit and the executing agencies participating in the Project, including Banco do Brasil S.A. and Banco do Nordeste do Brasil S.A., to maintain separate accounts to reflect in accordance with consistently maintained appropriate accounting practices the financial situation of the Project; (ii) cause such accounts to be audited annually in accordance with appropriate auditing principles consistently applied, by auditors acceptable to the Bank; (iii) make available to the Bank, not later than four months after the end

of each fiscal year, certified copies of such financial statements, as so audited, and a copy of the report of such audit; and (iv) furnish to the Bank such other pertinent information concerning such accounts as the Bank shall reasonably request from time to time.

Section 4.03. The Borrower undertakes to send to the Bank, for comments, by August 31, 1976, or such other date as the Bank shall agree, an analysis of the physical infrastructure needs of cooperatives in the Project area and a program for Banco Nacional de Crédito Cooperativo to provide the necessary financing therefor.

ARTICLE V

Remedies of the Bank

Section 5.01. For the purposes of Section 6.02 of the General Conditions, the following additional event is specified pursuant to paragraph (k) thereof, namely, that the State shall have failed to perform any covenant, agreement or obligation of the State under the Project Agreement.

Section 5.02. For the purposes of Section 7.01 of the General Conditions, the following additional event is specified pursuant to paragraph (h) thereof, namely, that the event specified in 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 and to the State.

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) The execution and delivery of the Project Agreement on behalf of the State have been duly authorized or ratified by all necessary governmental action;

(b) The agreements referred to in Section 3.03(a) of this Agreement have been executed;

(c) The Loan Agreement has been duly registered by the Banco Central do Brasil; and

(d) All necessary acts, consents and approvals to be performed or given by the Borrower, the State, their political subdivisions or agencies, by any agency of any such political subdivision, or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Borrower to perform all of the obligations of the Borrower in this Agreement contained together with all necessary powers and rights in connection therewith, have been performed or given.

Section 6.02. The following are specified as additional matters, 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 Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the State and is legally binding upon the State in accordance with its terms;

(b) That the Loan Agreement has been duly registered by Banco Central do Brasil; and

(c) That all acts, consents and approvals referred to in Section 6.01(d) of this Agreement, together with all necessary powers and rights in connection therewith, have been duly and validly performed or given and that no other such acts, consents or approvals are required in order to authorize the carrying out of the Project and to enable the Borrower to perform all of the obligations of the Borrower in this Agreement contained.

Section 6.03. The date June 1, 1976, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The *Ministro Chefe da Secretaria de Planejamento da Presidência da República* 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:

Secretaria de Planejamento
Edifício DASP
Esplanada dos Ministérios, Bloco 7
70000 Brasilia, D.F., Brazil

With copies to:

Banco Central do Brasil
Diretoria de Crédito Rural
Edifício Banco do Brasil S.A.
Setor Bancário Sul
70000 Brasilia, D.F., Brazil

Cable address:	Telex:
MINIPLAN Brasilia, Brazil	41139

With copies to:	Telex:
BANCENTRAL Brasilia, Brazil	41344

For the Bank:

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

Cable address:	Telex:
INTBAFRAD Washington, D.C.	440098 (ITT), 248423 (RCA) or 64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, 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 / Celso Diniz

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Adalbert Krieger

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)	Loans to small farmers	4,200,000	40% of disbursements made
(2)	Health facilities and services	800,000	40%
(3)	Technical services, Project administration, vehicles, equipment and materials related thereto	2,000,000	40%
(4)	Extension: salaries, rents, training, equipment, supplies and vehicles	1,300,000	31%
(5)	Training (other than for extension)	300,000	40%
(6)	Unallocated	3,400,000	
	TOTAL	12,000,000	

2. The disbursement percentages have been calculated in compliance with the policy of the Bank that no proceeds of the Loan shall be disbursed on account

of payments for taxes levied by, or in the territory of, the Borrower on goods or services, or on the importation, manufacture, procurement or supply thereof; to that end, if the amount of any such taxes levied on or in respect of any item to be financed out of the proceeds of the Loan decreases or increases, the Bank may, by notice to the Borrower, increase or decrease the disbursement percentage then applicable to such item as required to be consistent with the aforementioned policy of the Bank.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of expenditures: (i) prior to the date of this Agreement; and (ii) except as the Bank shall otherwise agree, in respect of any part of Phase II until the Bank has approved the progress of Phase I as provided in Section 3.01(b) of this Agreement.

4. Notwithstanding the allocation of an amount of the Loan or the disbursement percentages set forth in the table in paragraph 1 above, if the Bank has reasonably estimated that the amount of the Loan then allocated to any Category will be insufficient to finance the agreed percentage of all expenditures in that Category, the Bank may, by notice to the Borrower: (i) reallocate to such Category, to the extent required to meet the estimated shortfall, proceeds of the Loan which are then allocated to another Category and which in the opinion of the Bank are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the disbursement percentage then applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

5. If the Bank shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in this Agreement, no expenditures for such item shall be financed out of the proceeds of the Loan and the Bank may, without in any way restricting or limiting any other right, power or remedy of the Bank under the Loan Agreement, by notice to the Borrower, cancel such amount of the Loan as, in the Bank's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Loan.

SCHEDULE 2

Description of the Project

The Project consists of:

Part A. Improvement of agricultural extension services through the utilization of the services of additional qualified agricultural advisors trained to focus on small farmers' problems and of additional social extension workers, and the provision of logistic support.

Part B. Extension of loans, through Banco do Brasil S.A. and Banco do Nordeste do Brasil S.A., to small farmers for seasonal production purposes and for on-farm investments and expansion of cultivated area.

Part C. Experimentation and farm trials to improve technical packages for cotton and other crops focusing on the practical needs of small farmers.

Part D. (i) Adaptation, construction and equipping of health miniposts and health centers.

(ii) Training of community health workers, auxiliary nurses and social extensionists.

Part E. Training of Project staff and development of training materials for farmers.

Part F. Monitoring and evaluation of the effects of the preceding Parts of the Project on the Project area population.

Part G. Preparation of future rural development projects in other areas of the State.

* * * * * * *

The Project is expected to be completed by December 31, 1980.

SCHEDULE 3

Amortization Schedule

Date Payment Due	*Payment of Principal (expressed in dollars)**
January 1, 1981	115,000
July 1, 1981	125,000
January 1, 1982	130,000
July 1, 1982	135,000
January 1, 1983	140,000
July 1, 1983	145,000
January 1, 1984	155,000
July 1, 1984	160,000
January 1, 1985	165,000
July 1, 1985	170,000
January 1, 1986	180,000
July 1, 1986	190,000
January 1, 1987	195,000
July 1, 1987	205,000
January 1, 1988	215,000
July 1, 1988	220,000
January 1, 1989	230,000
July 1, 1989	245,000
January 1, 1990	250,000
July 1, 1990	260,000
January 1, 1991	275,000
July 1, 1991	285,000
January 1, 1992	295,000
July 1, 1992	310,000
January 1, 1993	325,000
July 1, 1993	335,000
January 1, 1994	350,000
July 1, 1994	370,000
January 1, 1995	380,000
July 1, 1995	395,000
January 1, 1996	415,000
July 1, 1996	435,000
January 1, 1997	450,000
July 1, 1997	470,000
January 1, 1998	490,000
July 1, 1998	510,000
January 1, 1999	530,000
July 1, 1999	555,000
January 1, 2000	580,000
July 1, 2000	615,000

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollars equivalents determined as for purposes of withdrawal.

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05(b) of the General Conditions:

Time of Prepayment	*Premium*
Not more than three years before maturity	1%
More than three years but not more than six years before maturity	2-1/4%
More than six years but not more than eleven years before maturity	4%
More than eleven years but not more than sixteen years before maturity	5-1/2%
More than sixteen years but not more than twenty-one years before maturity	7-1/4%
More than twenty-one years but not more than twenty-three years before maturity	8%
Nore than twenty-three years before maturity	8-1/2%

SCHEDULE 4

Lending Policies and Procedures

1. Loans for seasonal crop production will cover normal crop production costs included in the techniques to be developed under the Project and costs of hired labor. Loans for investment purposes will be mainly for draft animals, fencing, equipment and small-scale storage facilities.

2. Each loan for seasonal crop production will not exceed 25 times the highest Reference Value in the country and will be repaid within a period consistent with the production cycle of the crop financed.

3. Loans for investment purposes will be repaid in (i) 5 years in the case of loans for semi-fixed investment (work animals), including a grace period of up to 2 years, and (ii) 12 years in the case of loans for fixed investment, including a grace period of up to 6 years.

4. The aggregate outstanding principal amount of loans for seasonal crop production and for investment purposes will not exceed the equivalent of 50 times the highest Reference Value in the country for each individual farmer.

5. Banco do Nordeste do Brasil S.A. will expand its lending to small farmers in the Project area through cooperatives or to individual farmers by establishing simplified procedures, assisting the cooperatives to form branches, and expanding its accounting and managerial assistance to cooperatives. Banco do Brasil S.A. will expand its small agricultural loans through *inter alia* simplified lending procedures, mobile banking and lending to small groups.

6. Simplified lending procedures to be adopted under the Project will include (i) lending predetermined amounts per hectare of land on an unsecured basis in the case of loans for seasonal crop production, and (ii) taking into account the applicant's projected debt service based on average yields obtained and area cultivated, in the case of loans for investment purposes.