

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4690-BR

Recife Project Agreement

(Recife Urban Upgrading Project - PROMETRÓPOLE)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

MUNICIPALITY OF RECIFE

Dated July 23, 2003

Public Disclosure Authorized

LOAN NUMBER 4690-BR

RECIFE PROJECT AGREEMENT

AGREEMENT, dated July 23, 2003, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the MUNICIPALITY OF RECIFE (Recife).

WHEREAS by the Loan Agreement of even date herewith between the Bank and the State of Pernambuco (the Borrower), the Bank has agreed to make a loan to the Borrower in the amount of forty six million Dollars (\$46,000,000) (the Loan), on the terms and conditions set forth in the Loan Agreement, but only on condition, inter alia, that Recife agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Recife, 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, and the following additional terms have the following meanings:

(a) "Recife Component" means the activities to be carried out by Recife under the Project as set forth in Section 2.01 of this Agreement; and

(b) "URB Recife" means *Empresa de Urbanização do Recife*, Recife's urbanization company.

ARTICLE II

Execution of the Project

Section 2.01. Recife declares its commitment to the objective of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall, through URB Recife, Recife's Water and Sanitation Secretariat and Recife's Planning, Urban and Environment Secretariat, carry out the Subprojects in UEs 03 (R), 04 (R), 08 (R), 17 (R), 19 (R), 20 (R) and 21 (R) under Part C of the Project, the engineering design services in Part D (a) of the Project for the Subprojects under its responsibility, and the technical assistance in Part E of the Project in respect of its Project activities (the Recife Component), and assist the Borrower in the execution of Parts D (b), (c) and (g) of the Project, all with due diligence and efficiency and in accordance with appropriate administrative, financial, environmental and urbanization practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Recife Component.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the works and consultants' services required for the Recife Component and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.03. Recife 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 Recife Component.

Section 2.04. Recife shall, not later than the initiation of any bidding procedure for works under the Recife Component, employ, as provided in Section II of Schedule 4 to the Loan Agreement, a consulting firm to assist Recife, during the execution of the Recife Component, in the management and implementation of the Recife Component.

Section 2.05. Recife shall comply with its obligations under the Subsidiary Agreement, and, except as the Bank shall otherwise agree, shall not assign or amend the Subsidiary Agreement.

Section 2.06. Without limitation or restriction to the provisions of Section 2.01 of this Agreement, Recife shall carry out the Recife Component, as applicable, in accordance with the provisions of the Operational Manual, and any population resettlement action plan and environmental management plan that may be approved by the Bank pursuant to Section 2.07 of this Agreement. In case of any conflict between the provisions

of the Operational Manual and those of this Agreement or the Loan Agreement, the terms of such Agreements shall prevail.

Section 2.07. Prior to initiating any bidding procedure for works under any Subproject in Part C of the Project, Recife shall furnish to the Bank, for its review and approval:

- (a) the engineering design for such Subproject;
- (b) the results of the screening for potential impacts of such Subproject on the environment, and, if applicable, an environmental management plan to mitigate such environmental impacts; and
- (c) whenever such Subproject shall require resettlement of population, the corresponding resettlement action plan, such plan to be prepared in accordance with the Resettlement Framework.

Section 2.08. Recife shall:

- (a) furnish to the Borrower, in a timely manner, all the information required on the part of Recife to enable the Borrower to comply with the provisions of Sections 3.10 (a) and 3.11 of the Loan Agreement; and
- (b) participate in the review referred to in Section 3.10 (b) of the Loan Agreement.

Section 2.09. Recife shall promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of the Recife Component, the accomplishment of the objectives of the Project, or the performance by Recife of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Recife shall maintain a financial management system in URB Recife, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures of Recife in respect of the Recife Component.

(b) Recife shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section for each fiscal year audited in accordance with auditing standards acceptable to the Bank, 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 the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records, accounts and 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 such financial statements, records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 3.02. Recife shall furnish to the Borrower, in a timely manner, all the information required on the part of Recife to enable the Borrower to comply with the provisions of Sections 4.01 and 4.02 of the Loan Agreement.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

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

Section 4.02. This Agreement and all obligations of the Bank and of Recife hereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Recife 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, telex or facsimile 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. Deliveries made by facsimile shall also be confirmed by mail. 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:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For Recife:

Prefeitura do Recife
Av. Cais do Apolo, 925 -12do. andar
50030-903, Recife, Pernambuco
Brazil

Facsimile: (011-55-81) 3425-8851

With copies to:

Ministério do Planejamento, Orçamento e Gestão
Secretaria de Assuntos Internacionais- SEAIN
Esplanada dos Ministérios, Bloco "K" - 5º andar
70040-906, Brasília, D.F.
Brazil

Facsimile: (011-55-61) 225-4022

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Recife, may be taken or executed by the Mayor of Recife or such other person or persons as the Mayor of Recife shall designate in writing, and Recife shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. 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/ David de Ferranti
Regional Vice President
Latin America and the Caribbean

MUNICIPALITY OF RECIFE

By /s/ João Paulo Lima e Silva
Authorized Representative