

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4690-BR

Olinda Project Agreement

(Recife Urban Upgrading Project - PROMETRÓPOLE)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

MUNICIPALITY OF OLINDA

Dated July 23, 2003

Public Disclosure Authorized

LOAN NUMBER 4690-BR

OLINDA PROJECT AGREEMENT

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

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 Olinda agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Olinda, 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 term "Olinda Component" means the activities to be carried out by Olinda under the Project as set forth in Section 2.01 of this Agreement.

ARTICLE II

Execution of the Project

Section 2.01. Olinda 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 its Secretariats of Planning, Transport and Environment (*SEPLAMA*), and Public Works and Services, carry out the Subprojects in UEs 07 (O), 12 (O), 13 (O) and 15 (O) 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 Olinda 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 Olinda Component.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the works and consultants' services required for the Olinda 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. Olinda 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 Olinda Component.

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

Section 2.05. Olinda 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, Olinda shall carry out the Olinda 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, Olinda 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. Olinda shall:

(a) furnish to the Borrower, in a timely manner, all the information required on the part of Olinda 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. Olinda shall promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of the Olinda Component, the accomplishment of the objectives of the Project, or the performance by Olinda of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Olinda shall maintain a financial management system in its Secretariat of Planning, Transport and Environment (SEPLAMA) including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures of Olinda in respect of the Olinda Component.

(b) Olinda 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. Olinda shall furnish to the Borrower, in a timely manner, all the information required on the part of Olinda 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 Olinda hereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Olinda 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 Olinda:

Prefeitura Municipal de Olinda
Secretaria de Planejamento, Transportes e Meio Ambiente
Estrada do Bonsucesso, 306 - Bonsucesso
53240-150 Olinda, Pernambuco
Brazil

Facsimile: (011-55-81) 3439-3781

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 Olinda, may be taken or executed by the Mayor of Olinda or such other person or persons as the Mayor of Olinda shall designate in writing, and Olinda 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 OLINDA

By /s/ Luciana Barbosa de Oliveira Santos
Authorized Representative