

CONFORMED COPY

LOAN NUMBER 2822 BR

LOAN AGREEMENT

(Fourth Urban Transport Project)

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

July 27, 1987

LOAN NUMBER 2822 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 (A) the Bank has received a letter dated December 12, 1986, from the Borrower: (i) describing a program of actions, objectives and policies related to the development of the Borrower's urban transport sector, which includes a number of actions to be supported or carried out under the Project, and (ii) declaring the Borrower's commitment to the execution of that program;

(B) 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;

(C) the Project will be carried out by the Borrower through the Ministerio do Desenvolvimento Urbano e Meio Ambiente (MDU), and its Empresa Brasileira dos Transportes Urbanos (EBTU), and municipalities and other eligible entities operating in agencies of the Borrower's nine Metropolitan Regions, as hereinafter and in the Project Agreement provided, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to EBTU the proceeds of the Loan as provided in this Agreement;

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 and in the Project Agreement of even date herewith between the Bank and EBTU;

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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Project Agreement" means the agreement between the Bank and EBTU of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(b) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and EBTU pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time (and such term includes all schedules to the Subsidiary Agreement);

(c) "MR" means any of the following Metropolitan Regions (Regioes Metropolitanas) of the Borrower: Belem, Belo Horizonte, Curitiba, Fortaleza, Porto Alegre, Recife, Rio de Janeiro, Salvador and Sao Paulo and "MRs" means two o more of such Metropolitan Regions;

(d) "Manual" means EBTU's operating criteria and procedures manual approved by EBTU's Board of Directors on January 28, 1987 and by MDU on February 19, 1987;

(e) "Executing Entity" means a municipality, a governmental agency or any other duly established entity operating in an MR, which has been approved by EBTU and MDU for purposes of carrying out a Sub-project or one or more Sub-project Components (as such terms are hereinafter defined);

(f) "CBTU" means Companhia Brasileira de Trens Urbanos;

(g) "Participation Agreement" means an agreement entered into between MDU and EBTU and an Executing Entity for purposes of the Project pursuant to Section 2.01 (d) of the Project Agreement;

(h) "MR Participation Agreement" means an agreement entered into between MDU and EBTU and an Executing Entity for purposes of the Project pursuant to Section 2.01 (f) of the Project Agreement;

(i) "MR Entity" means an Executing Entity which has entered into an OR Participation Agreement with MDU and EBTU for purposes of coordinating and supervising the execution of the Project in an MR;

(j) "Sub-project" means a program to be carried out by the Executing Entity under the Project as defined in the respective Participation Agreement and consisting of one or more of the activities included in Parts I, II and III of the Project;

(k) "Sub-project Component" means a specific project to be carried out by an Executing Entity consisting of one or more of the activities included in the Sub-project defined in the Participation Agreement between such Executing Entity and MDU and EBTU;

(l) "Institutional Sub-project Component" means a Sub project Component consisting of activities included under Part III of the Project;

(m) "MR Sub-project Component" means a Sub-project Component to be carried out by an Executing Entity operating in an OR;

(n) "Eligible Sub-project Component" means an Institutional Sub-project

Component or an MR Sub-project Component which meets the Sub-project Component eligibility criteria set forth in the Manual and in the Schedule to the Project Agreement and has been approved by the Rank for financing under the Loan;

(o) "Cruzado" means the currency of the Borrower;

(p) "Sub-project Component Agreement" means an agreement entered into between MDU and EBTU and an Executing Entity pursuant to Section 2.01 (e) of the Project Agreement;

(q) "Central Bank" means Banco Central do Brasil, the Borrower's Central Bank;

(r) "Major Urban Transport Investment" means an investment in urban transport activities which may include, but not be limited to, the execution of civil works or the acquisition of vehicles and equipment and has an estimated cost that exceeds the equivalent of ten million dollars;

(s) "CESA" means the local expenditures special account to be opened pursuant to Section 2.02 (b) of this Agreement;

(t) "FESA" means the foreign exchange expenditures special account to be opened pursuant to Section 2.02 (c) of this Agreement;

(u) "Policy Action Plan" means the policy program defined in the letter from MDU to the Bank dated December 12, 1986, referred to in the Preamble to this Agreement;

(v) "SEPLAN" means Secretaria de Planejamento da Presidencia da Republica, the Borrower's Planning Ministry;

(w) "Sub-project Component Account" means each of the accounts to be maintained by each Executing entity pursuant to Section 4.02(a) of the Project Agreement for each Sub-project Component;

(x) "Consolidated Sub-project Account" means the consolidated accounts for each Sub-project to be maintained by each Executing Entity pursuant to Section 4.02(a) of the Project Agreement;

(y) "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; and

(z) "Project Action Plan" means EBTU's action plan covering key actions to be undertaken during the first year of the execution of the Project, set forth in EBTU's letter to the Rank dated December 11, 1986, as such plan shall be updated yearly pursuant to the provisions of the Project Agreement.

## 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 two hundred million dollars (\$200,000,000).

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 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 4 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 December 31, 1992 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 per cent ( $3/4$  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 May 15 and November 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.

### ARTICLE III

#### Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall:

(a) carry out the Policy Action Plan and, through MDU, Institutional Sub-project Components under Parts III and IV of the Project, with the assistance of EBTU, all with due diligence and efficiency and in conformity with appropriate administrative, engineering and financial practices, and the Borrower shall provide, promptly as needed, the funds, facilities, services and other resources required for such purpose;

(b) cause EBTU to perform in accordance with the provisions of the Project Agreement all the obligations of EBTU therein set forth, take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable EBTU to perform such obligations, and not take or permit to be taken any action which would prevent or interfere with such performance;

(c) as part of the foregoing: (i) include in its fiscal budget appropriate capital and operating expenditure allocations for EBTU, to ensure the timely execution of the Project; (ii) not later than August 31 each year, exchange views with the Bank on the adequacy of such allocations; and (iii) promptly after final approval of each year's fiscal budget, inform the Bank of the amounts actually allocated in such budget for purposes of the Project;

(d) make the proceeds of the Loan available to EBTU under a subsidiary agreement to be entered into between the Borrower and EBTU, under terms and conditions which shall have been approved by the Bank;

(e) exercise its rights under the Subsidiary Agreement 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, not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof;

(f) carry out the studies included in the Institutional Sub-project Components and in Part IV of the Project under terms of reference satisfactory to the Bank and in accordance with the timetables set forth in the Policy Action Plan;

(g) promptly after the completion of each of such studies: (i) furnish to the Bank the recommendations of each of such studies and any proposed plan or program to be carried out by the Borrower or any of its agencies based on such recommendations; (ii) give the Bank a reasonable opportunity to comment on such recommendations and plans or programs; and (iii) carry out such plans or programs after having analyzed the Bank's comments thereon; and

(h) for purposes of the execution of Part IV (b) of the Project, cause CBTU to provide assistance and technical support to MDU and EBTU.

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 5 to this Agreement.

Section 3.03. The Bank and the Borrower hereby agree that 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 shall be carried out by EBTU pursuant to Section 2.06 of the Project Agreement.

Section 3.04. (a) The Borrower shall, through SEPLAN and MDU, obtain EBTU's technical assessment, including an economic analysis carried out in accordance with the basic methodology set forth in the Manual, prior to approving any urban transport project estimated to cost the equivalent of five million dollars (\$5,000,000) or more (the adequacy of such amount to be reviewed from time to time by the Borrower, through SEPLAN and MDU and the Bank) and to be financed or partially financed with federal funds or with financing for which the Borrower's guarantee is requested.

(b) As part of the foregoing, the Borrower, through SEPLAN, shall cause the federal agencies with responsibilities in urban transport activities, to furnish, through MDU, to EBTU for review their multi-annual investment programs and the urban transport projects mentioned in paragraph (a) of this Section.

Section 3.05 (a) Not later than June 30 of each year, the Borrower, through MDU, shall exchange views with the Bank on the execution of the Policy Action Plan and its current and future policy goals and actions for the urban transport sector,

(b) After exchanging views with the Bank and not later than August 31 of each

year, the Borrower, through MDU, shall update the Policy Action Plan.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain, through MDU, separate records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Parts of the Project carried out by the borrower.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for CESA and FESA 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, 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 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 or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) 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 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 V

##### Remedies of the Bank

Section 5.01. Pursuant Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) EBTU shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement and extraordinary situation shall have arisen which shall make it improbable that EBTU or an Executing Entity or an MR entity will be able to perform its obligations under the Project Agreement, or a Participation Agreement or an MR Participation Agreement or a Sub-project Component Agreement.

(c) Law No. 6261 of November 11, 1975 of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of EBTU to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall be taken any action for the dissolution or disestablishment of EBTU or any Executing Entity or for the suspension of its operations.

(e) An Executing Entity or an MR Entity shall have failed to perform any of its obligations under a Participation Agreement or an MR Participation Agreement or a Sub-project Component Agreement.

(f) The Borrower or any entity operating in an MR shall have started the implementation of a Major Urban Transport Investment which in the Bank's opinion shall affect adversely the execution of the Project or any Sub-project or Sub-project Component included thereunder or their economic or financial viability.

(g) The Policy Action Plan or the Project Action Plan shall have been amended to an extent that in the Bank's reasonable opinion such amendment shall adversely affect the execution of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions the following additional events are specified:

(a) an event specified in paragraph (a) or paragraph (e) or paragraph (f) or paragraph (g) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower;

(b) an event specified in paragraph (c) or paragraph (d) of Section 5.01 of this Agreement shall occur.

#### 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 Condition;

(a) the Subsidiary Agreement has been executed on behalf of the Borrower and EBTU; and

(b) the Loan Agreement has been duly registered by Central Bank.

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 EBTU, and is legally binding upon EBTU in accordance with its terms;

(b) that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and EBTU and is legally binding upon the Borrower and EBTU in accordance with its terms;

(c) that the Loan Agreement has been duly registered by Central Bank; and

(d) that all necessary acts, consents and approvals to be performed or given by the Borrower, its political subdivisions or agencies, any agency of any such political subdivisions or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Borrower and the Executing Entities to perform all of their obligations in this Agreement and the Project Agreement contained or referred to (including the obligations thereof relating to the procurement of goods and civil works for the Project), 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 performance of such obligations.

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. The Ministro da Fazenda 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  
70048 Brasilia, D.F.  
Brazil

Cable address:

MINIFAZ

Telex:

0611142 MFAZ BR

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. Shah id 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) (a) Works	144,800,000	47%
(b) Local training and consultant services	29,300,000	47%
(2) Goods other than vehicles, vessels and computers	24,900,000	100% of foreign expenditures and 100% of local (ex-factory cost for goods procured locally
(3) Training abroad	1,000,000	100% of foreign expenditures
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TOTAL	200,000,000	

2. For purposes of this Schedule "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.

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 \$15,000,000, may be made on account of payments made for expenditures before that date but after July 1, 1986; (b) under a Sub-project Component unless such Sub-project Component shall have been approved by the Bank; and (c) expenditures made by any Executing Entity unless the Bank shall have received evidence satisfactory to the Bank that such Executing Entity has entered into a Participation Agreement governing its overall participation in the execution of the Project and a Sub-project Component Agreement, including the specific activities for which the disbursement from the Loan Account is requested.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) improve the operating efficiency of urban transport systems in the MRs through savings in transport costs and time; (b) seek to pass savings from improvements in urban transport systems on to users, in the form of lower tariffs or improved service levels; (c) conserve energy and encourage diesel fuel substitution by promotion of domestic energy sources; (d) strengthen the role of financial considerations in policy decisions affecting the urban transport system; and (e) strengthen institutions in the urban transport sector in particular

for investment planning and support decentralization through increased responsiveness of urban transport planning and supply to local needs.

The Project includes portions of EBTU's 1986-1990 urban transport investment plan to be carried out in the MRs and institutional strengthening programs to be carried out by MDU and EBTU and by relevant agencies in the MRs which are included in or are consistent with the Policy Action Plan and Project Action Plan, and consists of the execution of Sub-projects and Subproject Components including one or more of the activities or programs hereinafter referred to and the execution of studies, all as set forth in the following Parts, which are subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve the Project's objectives:

Part I: Corridor Programs

(a) Design, implementation, and supervision of investments to:

(i) improve public transportation by bus, trolley, and ferry; and

(ii) assist vehicle operations on the urban road network, including improvements in bus and road infrastructure, traffic and circulation management schemes, acquisition and utilization of equipment to assist traffic regulation enforcement, and support infrastructure investments; and

(b) acquisition and utilization of new passenger vehicles and vessels (buses, trolleys and ferries) and rehabilitation of existing fleets.

Part II: Maintenance Programs

Civil works for routine and periodic maintenance of MRs urban roads, maintenance of urban transport equipment and programs to improve the maintenance capabilities in the MRs, including acquisition and utilization of equipment and institutional development through training and through the establishment of standard maintenance programs and procedures.

Part III: Institutional Programs

Institutional strengthening programs for MDU, EBTU, CBTU and relevant agencies or entities in the MRs, including training, provision of technical assistance and acquisition and utilization of equipment for improved planning and operational practices, pilot technological development programs, studies and organizational measures to improve coordination, financial planning and urban transport policy development.

Part IV: Studies

(a) Execution of the following urban transport policy studies:

1. financial policy;
2. bus transportation regulation;
3. energy conservation; and
4. diesel fuel substitution.

(b) 1. provision of technical assistance to strengthen CBTU's investment planning; and

2. execution of studies on urban rail investments.

\* \* \*

The Project is expected to be completed by June 30, 1992.

SCHEDULE 3

Amortization Schedule

Date Payments Due	Payment of Principal (Expressed in dollars)
On each May 15 and November beginning November 15, 1990 through November 15, 2001	8,335,000
On May 15, 2002	8,295,000

Premiums on Prepayment

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

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means all 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 \$10,500,000 and to \$500,000, 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 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. The aforesaid equivalencies shall be determined on the basis of the rate of exchange between the dollar and the cruzado or such other Currency in effect at the time each payment for eligible expenditures shall have been made.

3. After the Bank has received evidence satisfactory to it that CESA or FESA, as the case may be, has 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 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 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 MESA 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 5

### Procurement and Consultants' Services

#### Section I. Procurement of Goods

##### Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and civil works 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 of this Schedule, goods manufactured in Brazil may be granted a margin of preference in accordance with, and subject to, the following provisions:

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. Civil works estimated to cost less than the equivalent of \$6,500,000 up to an aggregate not to exceed \$56,300,000 equivalent and goods estimated to cost less than the equivalent of \$500,000 up to an aggregate not to exceed \$10,400,000 equivalent, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Subject to specific prior approval by the Bank, civil works for maintenance (not to exceed in the aggregate \$22,000,000 equivalent), training courses (not to exceed in the aggregate \$7,000,000 equivalent) and bus fleet renovation activities (not to exceed in the aggregate \$700,000 equivalent) may be carried out by use of force account.

Part D: Review by the Bank of Procurement Decisions

(a) With respect to each contract for civil works estimated to cost the equivalent of \$3,250,000 or more, and contracts for 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 CESA or FESA, 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 CESA or FESA 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 CESA or FESA, such 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 4 to the Loan 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 and Section 4.02(b) of the Project Agreement.

3. The figure of 10% 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 and the Executing Entities in the carrying out of the Project, the Borrower and the Executing Entities 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.