

**CONFORMED COPY**

**LOAN NUMBER 4646 - BR**

# **Loan Agreement**

**(São Paulo Metro Line 4 Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**STATE OF SÃO PAULO**

**Dated June 25, 2002**

**LOAN NUMBER 4646 - BR**

## **LOAN AGREEMENT**

AGREEMENT, dated June 25, 2002, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the STATE OF SÃO PAULO (the Borrower).

WHEREAS (A) the Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to

this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(B) the Guarantor will guarantee the payment obligations of the Borrower in respect of the loan set forth in Section 2.01 of this Agreement (the Loan) pursuant to an agreement to be entered into between the Guarantor and the Bank (the Guarantee Agreement), as provided in Section 6.01 (a) of this Agreement; and

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;

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 for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) 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) “Eligible Categories” means Categories (1) and (2) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(b) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(c) “Environmental Impact Assessment” means the assessment, contained in the Borrower’s report dated July 27, 2001, of the environmental and social impacts of the carrying out of Part A of the Project, which includes the Environmental Mitigation Plan and a plan for resettlement of the population to be displaced because of the carrying out of Part A of the Project;

(d) “Environmental Mitigation Plan” means the Borrower’s plan, set forth in the Environmental Impact Assessment, for the mitigation of the environmental impacts of the carrying out of Part A of the Project;

(e) “Line 4” means the SP Metro’s line referred to in Part A of the Project;

(f) “Monitoring Indicators” means the indicators, set forth in Schedule 5 to this

Agreement, to be used in the monitoring and evaluation of the carrying out of the Project;

(g) “PCU” means the unit referred to in Section 3.03 of this Agreement;

(h) “PMU” means the unit referred to in Section 3.04 of this Agreement;

(i) “Project Management Report” means any of the reports prepared in accordance with the provisions of Section 4.02 of this Agreement;

(j) “Resettlement Plan” means the Borrower’s plan, set forth in the Environmental Impact Assessment, as such plan was updated in November 2001, for the resettlement of the population to be displaced because of the carrying out of Part A of the Project;

(k) “SP Metro” means *Companhia do Metropolitano de São Paulo - METRÔ*, the Borrower’s subway transportation company;

(l) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(m) “SPMR” means São Paulo metropolitan region, an area comprising the following municipalities of the Borrower: *Arujá, Barueri, Biritiba-Mirim, Cajamar, Caieiras, Carapicuíba, Cotia, Diadema, Embú, Embú-Guaçu, Ferraz de Vasconcelos, Francisco Morato, Franco da Rocha, Guararema, Guarulhos, Itapevi, Itaquaquecetuba, Itapeçerica da Serra, Jandira, Jujutiba, Mairiporã, Mauá, Mogi das Cruzes, Osasco, Pirapora do Bom Jesus, Poá, Ribeirão Pires, Rio Grande da Serra, Salesópolis, Santa Isabel, Santana do Parnaíba, Santo André, São Bernardo do Campo, São Caetano do Sul, São Lourenço da Serra, São Paulo, Suzano, Taboão da Serra and Vargem Grande Paulista*; and

(n) “STMSP” means *Secretaria de Estado dos Transportes Metropolitanos*, the Borrower’s Secretariat of Metropolitan Transport.

## 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 this Agreement, an amount equal to two hundred nine million Dollars (\$209,000,000).

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 for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Loan,

and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one per cent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

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

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ( $3/4$  of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and

expressed as a percentage per annum.

(c) The Bank shall notify the Borrower and the Guarantor of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower and the Guarantor of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower or the Guarantor notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on March 15 and September 15 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.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall, through the SP Metro under the general coordination of STMSP, carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, and public transportation practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall carry out or cause to be carried out the Environmental Mitigation Plan and the Resettlement Plan in accordance with the terms thereof.

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 4 to this Agreement.

Section 3.03. The Borrower shall establish and maintain, until completion of the Project, a unit (the PCU) within STMSP with a structure and functions satisfactory to the Bank, and with staff in adequate numbers and with adequate qualifications, for the purposes of assisting STMSP in the general coordination of the Project, such unit to be headed at all times by a coordinator with qualifications, experience, functions and responsibilities satisfactory to the

Bank, who shall report directly to the Secretary of STMSP.

Section 3.04. The Borrower shall cause the SP Metro to establish, and thereafter maintain until the completion of the Project, a unit (the PMU) with responsibilities, structure and functions satisfactory to the Bank and with staff in adequate numbers and with adequate qualifications, for the purposes of assisting the SP Metro in the carrying out of its responsibilities under the Project, including those related to procurement of goods, works and consultants' services under the Project, Loan disbursements, Project financial management, and Project monitoring, evaluation and reporting, such unit to be headed at all times by a coordinator with qualifications, experience, functions and responsibilities satisfactory to the Bank, who shall report directly to the President of the SP Metro.

Section 3.05. The Borrower shall:

(a) not later than nine months after the date of this Agreement, publish an invitation, under terms and conditions satisfactory to the Bank, for prequalification of firms for: (i) the operation and maintenance of Line 4 under a concession agreement satisfactory to the Bank; or (ii) private sector participation in the carrying out of Part A of the Project under an arrangement satisfactory to the Bank, such concession agreement or arrangement to include the supply of train sets and acquisition and installation of some system wide facilities for Line 4;

(b) if interested firms submit prequalification documents, carry out such prequalification in a manner satisfactory to the Bank;

(c) if applicable, not later than four months after such prequalification is effected, invite such prequalified firms to bid for such concession agreement or such other private sector participation arrangement, under bidding documents satisfactory to the Bank; and

(d) if applicable, award such concession agreement or such other arrangement in a manner satisfactory to the Bank.

Section 3.06. The Borrower shall:

(a) not later than one year after the date of this Agreement, establish and maintain an entity or commission in charge of regulating the operation, by private sector entities, of urban transport services under the Borrower's jurisdiction in the SPMR, such entity or commission to have a structure and terms of reference satisfactory to the Bank;

(b) maintain the existing regional transport coordination commission to serve as a forum for discussion of policies for public transportation prices and subsidies in the SPMR;

(c) adopt, not later than 24 months after the date of this Agreement, a multimodal public transportation ticket using smart card technology to ensure integration of inter-municipal

public transportation in the SPMR;

(d) (i) not later than December 31, 2002, put into effect a consultation mechanism with the municipalities in the SPMR, especially the Municipality of São Paulo, for purposes of promoting: (i) integration of the different public services, including urban transportation services, in the SPMR; and (ii) a joint development of financing mechanisms based on land use control (*operações urbanas*), both with a view to improve public transportation in the SPMR; and (ii) not later than June 30 and December 31 of each year thereafter, furnish to the Bank a report on the progress achieved in the implementation of such consultation mechanism during the previous six-month period; and

(e) (i) carry out, every year during the first five years after the start of operations of Line 4, a survey to gauge the satisfaction of the users of Line 4 with the services provided, particularly in terms of level of service, integration with other means of public transportation, and affordability of the transportation, (ii) carry out, promptly before the start of implementation and promptly after the completion of Line 4, a survey to obtain information on the changes in real estate property prices and rents in the area covered by Line 4, and the effect of Line 4 on the construction of new housing and installation of new businesses in such area; (iii) furnish to the Bank the results of each such survey.

Section 3.07. Without limitation upon the provisions of Sections 9.01 (a) and 9.07 of the General Conditions, the Borrower shall: (i) in the month of June of each year during Project implementation, furnish to the Bank a report on the progress in the implementation of the Project during the previous twelve-month period, such progress to be measured against the Monitoring Indicators, and to be of such scope and in such detail as the Bank shall reasonably request (including information on the activities of the regulatory entity or commission referred to in Section 3.06 (a) of this Agreement); and (ii) in the month of July of each year during Project implementation, hold a review with the Bank on the progress of the Project and the attainment of its objectives (the review to take place in the month of July of 2003 to be the mid-term review), such reviews to be based on the reports referred to in subparagraph (i) above and, thereafter, take or cause to be taken all such action which shall have been agreed upon by the Borrower and the Bank during such reviews as necessary for the efficient execution of the Project or the achievement of its objectives, such action to be taken in the manner and within the timetable agreed upon during such reviews.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall cause the SP Metro to maintain a financial management system, including records and accounts, and to prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect SP Metro's operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

- (b) The Borrower shall cause the SP Metro to:
- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year and the records and accounts for the Special Account 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 said financial statements reflecting the records and accounts referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements and 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 records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may 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 or Project Management Reports, the Borrower shall:

- (i) cause the SP Metro to maintain, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) cause the SP Metro to 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 or Project Management Reports, as the case may be, 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall cause the SP Metro to carry out a time-bound action plan



acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than one year after the Effective Date, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

## **ARTICLE V**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that no later than June 30, 2004 or when 70% of the proceeds of the Loan have been withdrawn from the Loan Account, whichever occurs earlier, the Borrower has not furnished to the Bank evidence, satisfactory to the Bank, that the Borrower has obtained a contribution of at least \$150,000,000 from private sector investors for the carrying out of Part A of the Project, under arrangements satisfactory to the Bank. It is agreed that such event shall not be considered an event of suspension if the Borrower shall demonstrate, in a manner acceptable to the Bank, that the Borrower: (a) has made its best efforts to obtain such contribution, but it did not succeed for reasons beyond the control of the Borrower; and (b) has the funds required to offset the Project financing gap resulting from such event.

## **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 Guarantee Agreement has been entered into between the Guarantor and the Bank, and the Guarantor has delivered to the Bank a letter, satisfactory to the Bank, confirming the provision of financial and economic data to the Bank in accordance with Section 9.02 of the General Conditions, and informing the Bank of any liens on public assets, for purposes of Section 9.03 of the General Conditions;

(b) the Resettlement Plan is being carried out in accordance with the terms thereof;

(c) the PCU and the PMU have been established, as provided in Sections 3.03 and 3.04 of this Agreement, respectively; and

(d) the Environmental Impact Assessment has been approved and the corresponding license for the carrying out of Part A of the Project has been issued by the Borrower's environmental protection agency.

Section 6.02. The following is specified as an additional matter, 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, namely, that the Loan has been validly registered by the Guarantor's Central Bank.

Section 6.03. The date September 25, 2002, 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 Secretary of Finance 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 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 the Borrower:

Secretaria de Estado dos  
Negócios da Fazenda  
Avenida Rangel Pestana 300 - 5º andar  
01017-000 São Paulo, S.P.  
Brasil

Facsimile: (55-11-31076942)

With copies to:

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

Facsimile: (55-61-2254022)

Secretaria de Estado dos Transportes Metropolitanos  
Av. Paulista, 402 - 15º andar  
01030-903 São Paulo, S.P.  
Brasil

Facsimile: (55-11-32849054)

Companhia do Metropolitano de São Paulo-METRÔ  
Rua Augusta, 1626  
01304-902 Sao Paulo, S.P.

Facsimile: (55-11-33715228)

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/ Jane Armitage

Acting Regional Vice President  
Latin America and the Caribbean

STATE OF SÃO PAULO

By /s/ Geraldo José Rodrigues Alckmin Filho

Authorized Representative

## SCHEDULE 1

### Withdrawal of the Proceeds of the Loan

A. General

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:

<u>Category</u>	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods and works under the contract or contracts referred to in Section I of Schedule 4 to this Agreement	201,910,000	50%
(2) Consultants' services	5,000,000	50%
(3) Front-end fee	<u>2,090,000</u>	Amount due pursuant to Section 2.04 of this Agreement
TOTAL	<u>209,000,000</u>	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$500,000, may be made in respect of expenditures under Category (2) in the table in paragraph 1 above on account of payments made within one year before the date of this Agreement.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into said Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

## **Annex A**

**to**

### **SCHEDULE 1**

#### **Operation of Special Account**

#### **When Withdrawals Are Not Made**

#### **On the Basis of Project Management Reports**

1. For the purposes of this Annex, the term "Authorized Allocation" means the amount of \$20,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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 the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

## **Annex B**

**to**

### **SCHEDULE 1**

#### **Operation of Special Account**

#### **When Withdrawals Are Made**

#### **On the Basis of Project Management Reports**

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the



Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed \$30,000,000.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are: (a) to improve the quality and long-term sustainability of urban transport in the SPMR by interconnecting the existing subway, commuter rail and bus networks through the construction of Line 4; (b) to improve the accessibility to employment centers and health and education facilities of the low-income population of the areas to be served by Line 4; and (c) to seek private sector participation in the development of Line 4.

The Project consists of the following parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

#### Part A: Infrastructure and Equipment Investment

Construction of, provision of equipment for, and operation and maintenance of, the line of the SP Metro which will link the SP Metro's Vila Sonia yard facility to the SP Metro's Luz station (Line 4), consisting of about 12,800 meters of double underground track, 5 stations and 4 station shells, acquisition and installation of system-wide facilities (including fixed installations for electrification), and acquisition and operation of 16 train sets.

#### Part B: Technical Assistance

Provision of technical assistance for: (1) the management oversight and supervision of the carrying out of Part A of the Project; (2) the carrying out of a financial management and cost recovery review (including recommendations on tariff structure) of the SP Metro operations; and (3) for a follow-up project finance study on alternatives for private sector participation in the carrying out of Part A of the Project .

\* \* \*

The Project is expected to be completed by December 31, 2006.

## **SCHEDULE 3**

### **Amortization Schedule**

Payment of Principal

<u>Date Payment Due</u>	<u>(expressed in Dollars)*</u>
On each March 15 and September 15	
beginning September 15, 2007 through March 15, 2017	10,450,000

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\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

## **SCHEDULE 4**

### **Procurement**

#### Section I. Procurement of Goods and Works

Goods and works for the construction of the double underground track, five stations and four station shells, and fixed installations for electrification for Line 4 shall be procured on the basis of international competitive bidding procedures in accordance with the provisions of Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits," published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines), under no more than three lump-sum turnkey contracts. The following provisions shall also apply to the procurement of such contract or contracts:

(a) Prequalification

Bidders shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Notification and Advertising

The invitation to prequalify shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

(c) Dispute Review Board

Such contract or contracts shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines, with the modifications that may be required.

(d) Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines, regarding prior review of procurement decisions by the Bank, and the provision in paragraph 5 of said Appendix 1, regarding translation of contract awarded to a local bidder, shall apply to the procurement of such contract or contracts.

Section II. Employment of Consultants

Consultants' services shall be procured in accordance with the provisions of the Introduction, Section II, Section IV, paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)), 3 and 5 of Appendix 1, and Appendix 2 of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers," published by the Bank in January 1997 and revised in September 1997 and January 1999.

**SCHEDULE 5**

**Monitoring Indicators**

<u>By End of the Calendar Year</u>	2001 (base )	2002	2003	2004	2005	2006
<b><u>Project Development Objectives</u></b>						
Percentage of Line 4 stations integrated with bus lines (integration-related objective)	0	0	0	0	0	90
SP Metro's share of urban transport motorized trips (%) (congestion-related objective)	18	19	19	19	19	23
Generalized cost of travel (travel time plus fare plus reliability) between Vila Sonia and Luz stations in minutes (accessibility of low-income user related objective)	89	89	89	89	89	51
Ratio between SP Metro's operating costs (without	.98				<1	<1

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depreciation and cost of capital) and operating revenues						
<b><u>Project Outputs</u></b>						
Physical Implementation						
% of infrastructure completed	0	2	25	25	25	23
% of stations completed	0	2	25	25	25	23
% of systems completed	0	0	0	28	44	28
% of rolling stock delivery completed	0	0	0		50	50
<b><u>Institutional Development</u></b>						
Financial management and cost recovery review under Part B (2) of the Project		Study completed	Recommendations implemented			
Follow-up study on private sector participation, under Part B (3) of the Project		Study completed				

