

CONFORMED COPY

LOAN NUMBER 7083 - BR

Project Agreement

(Fortaleza Metropolitan Transport Project)

among

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

and

**COMPANHIA BRASILEIRA DE
TRENS URBANOS - CBTU**

and

**COMPANHIA CEARENSE DE
TRANSPORTES METROPOLITANOS - METROFOR**

Dated August 1, 2002

PROJECT AGREEMENT

AGREEMENT, dated August 1, 2002, among the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), COMPANHIA BRASILEIRA DE TRENS URBANOS – CBTU (CBTU) and COMPANHIA CEARENSE DE TRANSPORTES METROPOLITANOS – METROFOR (METROFOR).

WHEREAS by the Loan Agreement of even date herewith between the Federative Republic of Brazil (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to ninety-eight million six hundred thousand Euro (EUR98,600,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that CBTU and METROFOR agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS CBTU and METROFOR, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have 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 and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. CBTU and METROFOR declare their commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end: (a) METROFOR and CBTU shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, engineering and public transportation practices; and (b) CBTU shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project, including the proceeds of the Loan and the counterpart funds required on the part of the Borrower for the Project.

Section 2.02. 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 carried out by METROFOR, with the assistance of CBTU, in accordance with the provisions of Schedule 1 to this Agreement.

Section 2.03. METROFOR shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, maintenance and land acquisition, respectively) and CBTU shall carry out the obligations set forth in Section 9.07 thereof (relating to records and reports), all in respect of the Project.

Section 2.04. (a) CBTU and METROFOR shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of their respective obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) CBTU and METROFOR shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by CBTU or METROFOR of their respective obligations under this Agreement.

Section 2.05. (a) CBTU shall maintain, until completion of the Project, the existing unit in CBTU, established pursuant to the Resolution of CBTU's Director President No. 0235-2001, dated July 26, 2001, with staff, responsibilities and functions satisfactory to the Bank, to be responsible, within CBTU, for the coordination of the execution of the Project.

(b) METROFOR shall maintain, until completion of the Project, a unit in METROFOR (the PCU) with staff, responsibilities and functions satisfactory to the Bank, to be responsible, within METROFOR, for the coordination of the execution of the Project. The PCU shall be assisted by consultants to be selected pursuant to the provisions of Section II of Schedule 1 to this Agreement, including a specialist in relocation of population to monitor the carrying out of the Resettlement Plan until its completion, an environmental engineer, a procurement specialist, and a management information systems specialist to assist CBTU in the overall financial management and supervision of the Project.

Section 2.06. METROFOR shall:

(a) carry out the Resettlement Plan in accordance with the terms thereof;

(b) not initiate any work on any section of the rail system under Part A.1 of the Project until the relocation of families and commercial activities under such section has been concluded in accordance with the Resettlement Plan;

(c) not initiate any work under Part A.1 of the Project which may prevent access to homes or job sites of the population living in, or in an area adjacent to, the right-of-way of the rail system under Part A.1 of the Project, until METROFOR has implemented measures to mitigate such lack of access, in accordance with a plan satisfactory to the Bank (including, if

required, relocation of the affected population);

(d) carry out Part A.1 of the Project in accordance with the provisions of the manual of environmental procedures, issued by METROFOR on March 21, 2000;

(e) provide to CBTU all information regarding the carrying out of the Project that may be required by CBTU for the operation of the management information system referred to in Section 2.07 (a) of this Agreement;

(f) for purposes of complying with paragraph (e) above, establish, not later than 180 days after the date of this Agreement, and thereafter maintain until the completion of the Project, a management information system similar to the system referred to in Section 2.07 (a) of this Agreement; and

(g) not later than twelve months after the Effective Date, submit to the Bank the Transport Integration Study, after taking into account any comments that the Bank may have on the draft of such study.

Section 2.07. (a) CBTU shall, with the assistance of METROFOR, maintain, during the execution of the Project, a management information system for purposes of tracking the physical progress of the Project, in order to enable CBTU to carry out the overall financial management and supervision of the Project and produce the reports referred to in paragraph (b) below and the information referred to in Section 3.03 (b) and (c) of this Agreement to be included in the Project Management Reports.

(b) Without limitation to the provisions of Section 2.04 of this Agreement, CBTU shall, until the completion of the Project, prepare, with the assistance of METROFOR, and furnish to the Bank, not later than February 28 and August 31 of each year, a report of such scope and in such detail as the Bank shall reasonably request on the progress of the Project and the achievement of its objectives (as measured against the performance indicators set forth in Schedule 2 to this Agreement), the compliance of obligations of CBTU and METROFOR under this Agreement and the availability of funds as required to meet their obligations set forth in this Agreement, each such report to cover the calendar semester period immediately preceding the issuance of such report.

Section 2.08. Without limitation to the provisions of Section 2.04 of this Agreement, CBTU and METROFOR shall:

(a) in the month of November of each year during the execution of the Project, review with the Bank, the Borrower and the State the progress in the execution of the Project and in the achievement of its objectives, and the performance of the respective obligations of the Borrower, CBTU, METROFOR and the State under the Loan Agreement, the Project Agreement and the State Agreement, as the case may be; and

(b) in the twenty-fourth month after the Effective Date, conduct a comprehensive

mid-term review with the Bank, the Borrower and the State of the matters referred to in (a) above, and thereafter take all such action which shall have been agreed upon with the Bank, during such review, 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 review.

Section 2.09. METROFOR shall manage and operate the STU-FOR/METROFOR System in accordance with appropriate administrative, financial, environmental, safety and public transportation practices.

Section 2.10. METROFOR and CBTU shall:

(a) at the request of the Bank, exchange views with the Bank with regard to the progress of the carrying out of the rehabilitation and modernization works currently under way for the South Line; and

(b) promptly inform the Bank of any condition which interferes or threatens to interfere with the carrying out of such works.

Section 2.11. METROFOR shall:

(a) prepare and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Bank and METROFOR, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with METROFOR on said plan.

ARTICLE III

Financial Covenants

Section 3.01. (a) CBTU shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) CBTU 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 statements, records and accounts 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.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, CBTU shall, not later than nine months after the date of this Agreement or such later date as the Bank shall agree, complete the carrying out of a time-bound action plan acceptable to the Bank for the strengthening of its financial management system referred to in paragraph (a) of said Section 3.01 in order to enable CBTU to produce the information referred to in Section 3.03 (a) of this Agreement to be included in the Project Management Reports.

Section 3.03. Upon completion of the action plan referred to in Section 3.02 of this Agreement, CBTU 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, acceptable to the Bank, each of which shall:

(a) (i) set 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 (ii) 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;

(b) (i) describe physical progress in Project implementation, both cumulatively and for the period covered by said report; and (ii) explain variances between the actual and previously forecast implementation targets; and

(c) set 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.

Section 3.04. (a) METROFOR shall maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of METROFOR and to register separately the operations, resources and expenditures related to the Project.

- (b) METROFOR shall:
 - (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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: (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, records and 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 records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE IV

Effectiveness; Termination; Cancellation and Suspension

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

Section 4.02. This Agreement and all obligations of the Bank, CBTU and METROFOR hereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify CBTU and METROFOR 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 transmission 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 CBTU:

Companhia Brasileira de Trens Urbanos - CBTU
Estrada Velha da Tijuca 77
20.531-080 Rio de Janeiro, RJ
Brazil
Facsimile:
(55-21) 2208-1780

For METROFOR:

Companhia Cearense de
Transportes Metropolitanos - METROFOR
Rua 24 de Maio, 60 - Centro
60020-001 Fortaleza, Ceará
Brazil

Facsimile:
(55-85) 4557016

With copies to

Ministério do Planejamento, Orçamento e Gestão

Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco "K" - 5 andar
70.040-906 Brasília, D.F.
Brazil

Facsimile:
(55-61) 2254022
Ministério dos Transportes
Subsecretaria de Planejamento e Orçamento
Esplanada dos Ministérios, Bloco "R" - 4 andar
70.044-900 Brasília, D.F.
Brazil

Facsimile:
(55-61) 3117979

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement may be taken or executed: (a) on behalf of CBTU, by its Director-President or such other person or persons as he or she shall designate in writing; and (b) on behalf of METROFOR, by its Director-President or such other person or persons as he or she shall designate in writing. CBTU and METROFOR 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 city of Fortaleza, State of Ceará, Brazil, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jorge M. Rebelo

Authorized Representative

COMPANHIA BRASILEIRA DE
TRENS URBANOS - CBTU

By /s/ Luiz Otávio Mota Valadares
By /s/ Arrenaldo Bonavita Teixeira

Authorized Representatives

COMPANHIA CEARENSE DE
TRANSPORTES METROPOLITANOS - METROFOR

By /s/ Luiz Eduardo Barbosa de Moraes

By /s/ Maiza Rodrigues Ponte Parente

Authorized Representatives

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works under Part A.1 of the Project shall be procured, in accordance with the provisions of Section I 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) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Goods and works under Part A.1 of the Project shall be procured under a turnkey contract awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to the procurement of goods and works under Part A.1 of the Project:

(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 not later than 6 months after the Effective Date.

(c) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower. For purposes of the Guidelines, the term custom duties and other import taxes includes the Borrower's Freight Surcharge for the Renewal of the Merchant Marine (*Adicional ao Frete para a Renovação da Marinha Mercante*), established by Decree Law 1.142 of December 30, 1970, as amended to December 31, 1987, or any other tax, levy or charge that, in the reasonable opinion of the Bank,

may substitute it, in whole or in part, after January 1, 1988.

Part C: Prior Review by the Bank of Procurement Decisions

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to the procurement of goods and works under Part A.1 of the Project.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply, provided, however, that the terms of reference for the respective assignments shall be subject to the Bank's prior review and approval.

SCHEDULE 2

Performance Indicators

<u>By End of the Calendar Year</u>	2000 (base)	2001	2002	2003	2004	2005
<u>Project Development Objectives</u>						
Percentage of rail stations integrated with bus lines (integration-related objective)	0	0	0	0	50	50
Rail share of urban transport motorized trips (%) (congestion-related objective)	2					10
Generalized cost of travel (travel time plus fare plus reliability) between Caucaia and João Felipe in minutes (accessibility of low-income user related objective)	93					65
<u>Project Outputs</u>						
<u>Physical Implementation</u>						
% of permanent way works completed (Part A.1 of the Project)	0	0	33	66	100	
% of other civil works completed	0	0	33	66	100	

(Part A.1 of the Project)						
% of rolling stock delivered and systems completed (Part A.1 of the Project)	0	0	0	33	80	100
Institutional Development						
Private sector participation process		Modeling completed	Bidding procedures initiated			
Integrated urban transport, land use and air quality strategy (Part B.1 of the Project)		Draft report completed		Final report discussed in a participatory manner		

