

CONFORMED COPY

LOAN NUMBER 3129 BR

Project Agreement

(Municipal Development Project  
in the State of Rio Grande do Sul)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

BANCO DE DESENVOLVIMENTO DO ESTADO  
DO RIO GRANDE DO SUL S.A.

Dated January 22, 1990

LOAN NUMBER 3129 BR

PROJECT AGREEMENT

AGREEMENT, dated January 22, 1990, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BANCO DE DESENVOLVIMENTO DO ESTADO DO RIO GRANDE DO SUL S.A. (BADESUL).

WHEREAS (A) by the Loan Agreement of even date herewith between the State of Rio Grande do Sul (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred million dollars (\$100,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that, inter alia, BADESUL agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by an agreement to be entered into between the Borrower and BADESUL (the BADESUL Agreement), the Borrower shall delegate part of the execution of the Project on BADESUL under the terms and conditions set forth in the

BADESUL Agreement; and

WHEREAS BADESUL, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) BADESUL declares its commitment to the objectives of the Project as set forth in Section 3.01 of the Loan Agreement, and, to this end, shall participate in the carrying out of the Project by providing financial and technical assistance to Sub-borrowers, appraising each Sub-project proposed to be financed under the Loan and supervising their execution, coordinating the overall execution of the Project, preparing reports, plans and programs as required, representing the Borrower and, in general, carrying out the obligations herein set forth, all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, ecological and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for such purposes.

(b) As part of the foregoing, BADESUL shall maintain and adequately staff, in terms satisfactory to the Bank, a management, technical and administrative unit at its headquarters (the Project Unit) and maintain regional technical and administrative services, satisfactory to the Bank, for purposes of appraising and supervising Sub-projects.

Section 2.02. (a) BADESUL shall enter into agreements, satisfactory to the Bank, with Financial Agents (the Financial Agency Agreements) providing for the participation of the Financial Agents in the carrying out of the Project and the making of Sub-loans by BADESUL;

(b) BADESUL shall enter into agreements, satisfactory to the Bank, with Financial Agents (the Housing Agency Agreements), providing for the participation of such Financial Agents in the carrying out of the Project by making Housing Loans to Low Income Families;

(c) Each Financial Agency and Housing Agency Agreement shall, inter alia: (i) regulate the transfer of part of the proceeds of the Loan to the Financial Agent and the Eligible Sub-borrowers or beneficiaries of Housing Loan; and (ii) define the obligations of the Financial Agent under the Project, including those set forth or referred to in this Agreement.

(d) Unless the Bank shall otherwise agree, BADESUL shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Financial Agency Agreements or Housing Agency Agreements, or any provision thereof.

Section 2.03. BADESUL shall:

(a) enter into agreements, (the Technical Cooperation Agreements), satisfactory to the Bank, with specialized agencies of the Borrower such as FDRH, STASC, and SDO, providing for joint participation of BADESUL and each such agency in the execution of studies under the Project, the supervision of the execution of Sub-projects by Eligible Sub-borrowers and Housing Sub-projects and in the provision of assistance for the procurement of goods and services to be financed out of the proceeds of the Loan and FUNDOPIMES Loans; and

(b) duly perform all of its obligations under such agreements and, except as the Bank shall otherwise agree, not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Technical Cooperation Agreements or any provision thereof.

Section 2.04. BADESUL shall:

- (a) select the Sub-borrowers for the purposes of entering into a Sub-loan Agreement in accordance with the selection criteria for Eligible Sub-borrowers set forth in Schedule 4 to the Loan Agreement and in the Manual;
- (b) select as Eligible Sub-projects only those which meet the criteria-set forth in Schedule 7 to the Loan Agreement and in the Manual;
- (c) include in the Sub-loan Agreements the obligations for Sub-borrowers set forth or referred to in this Agreement and the Loan Agreement, including specifically those referred to in Schedules 3, 4 and 5 of the Loan Agreement, the Schedule to this Agreement and the financial terms and conditions set forth in Schedule 2 to the Loan Agreement and in the Manual; and
- (d) employ, under terms and conditions satisfactory to the Bank, qualified independent consultants to assist BADESUL in the supervision of Eligible Sub-projects.

Section 2.05. (a) Without limitation to the foregoing, BADESUL shall cause the Eligible Sub-borrowers to carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part I of the Project, as provided in paragraphs 5 and 6 of Schedule 3 to this Agreement;

(b) BADESUL shall carry out the obligations set forth in Sections 9.06 and 9.07 of the General Conditions (relating to plans and schedules and records and reports) in respect of this Agreement;

(c) BADESUL shall:

(i) starting not later than January 31, 1990, prepare and furnish to the Bank quarterly progress reports on the execution of the Project, of such scope and detail as the Bank shall reasonably request including specific detailed information on (A) availability of counterpart funds; (B) financial performance of Sub-borrowers by region, size and type; and (C) the status of execution of Part I of the Project;

(ii) monitor the economic, financial and fiscal impact of the execution of the Project in accordance with indicators set forth in the Manual;

(iii) not later than October 31 of each year, report to, and exchange views with the Bank on the results of such monitoring;

(iv) not later than October 31 of each year, report to, and exchange views with, the Bank on:

(A) borrowing capacity and creditworthiness of the Municipalities, CORSAN, COHAB-RS, the MWCs and other Eligible Sub-borrowers;

(B) resource allocation, including grants and Subloans, under PIMES by region, type of Municipalities and nature of investments for the current and forthcoming calendar years;

(C) indicators of fiscal, financial and cost recovery performance of the Sub-borrowers; and

(D) status of implementation of the Technical Assistance Program;

(v) based on the foregoing, prepare, not later than October 31 of each year, an annual investment program for PIMES, satisfactory to the Bank, and the Borrower, including estimate of the Sub-projects to be carried out during such calendar year; and a global

(vi) prepare the project completion report referred to in Section 9.07 (c) of the General Conditions.

(d) BADESUL shall promptly furnish to the Bank all reports and other documents or instruments prepared or issued by CORSAN, the MWCs and other Sub-borrowers pursuant to their respective Project, Participation and Sub-loans Agreements.

Section 2.06. BADESUL jointly with STASC shall:

(a) promote, carry out or assist in the carrying out of Housing Sub-projects and, for such purposes, provide technical assistance services to Low Income Families and groups or organizations of Low Income Families, including community development and legal advice;

(b) exchange view with the Bank, not later than September 30, 1991, on the execution of Housing Sub-projects, the adequacy of Housing Loans, their benefits and main problems and the adequacy of the amounts allocated to such Sub-projects and loans under the Project.

Section 2.07. For purposes of, and without limitation to the provisions of, Section 2.05 (c) of this Agreement, BADESUL shall, not later than March 31, 1990, prepare and furnish to the Bank, a set of financial, economic, technical, environmental and social monitoring indicators for the Project and the Sub-borrowers, satisfactory to the Bank.

Section 2.08. 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 the Loan Agreement.

Section 2.09. BADESUL shall duly perform all its obligations under each Sub-loan Agreement entered into with a Sub-borrower, each Financial Agency Agreement and Housing Agency Agreement entered into with a Financial Agent, the BADESUL Agreement and each Technical Cooperation Agreement. Except as the Bank shall otherwise agree, BADESUL shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving any such Agreements or any provision thereof.

Section 2.10. (a) BADESUL shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Eligible Sub-project, the performance of its obligations under this Agreement and under the Sub-loan Agreements and other matters relating to the purposes of the Loan.

(b) BADESUL 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 BADESUL of its obligations under this Agreement and by BADESUL an Eligible Sub-borrowers under the Sub-loan Agreements.

### ARTICLE III

#### Management and operations of BADESUL

Section 3.01. BADESUL shall carry on its operations and conduct its affairs in accordance with sound administrative and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. BADESUL shall at all times operate and maintain its building, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and maintenance practices.

Section 3.03. BADESUL shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) BADESUL shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate accounts to reflect all resources and expenditures in respect of the Project.

(b) BADESUL 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 four months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) 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, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

#### ARTICLE V

Effective Date; Termination;  
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of BADESUL thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify BADESUL thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE VI

Miscellaneous Provisions

Section 6.01. 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, telegram, cable, telex or radiogram 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. 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:

INTBAFRAD  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

For BADESUL:

Banco de Desenvolvimento do Estado do  
Rio Grande Do Sul S.A.  
Rua Sete de Setembro, 666  
90.010 Porto Alegre  
Rio Grande do Sul  
Brasil

Telex:

(51) 1159

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of BADESUL may be taken or executed by the President of BADESUL or such other person or persons as the President of BADESUL shall designate in writing, and BADESUL shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Armeane Choksi

Acting Regional Vice President  
Latin America and the Caribbean

BANCO DE DESENVOLVIMENTO DO ESTADO DO  
RIO GRANDE DO SUL S.A.

By /s/ Joao Carlos Brunn Torres

Authorized Representative

SCHEDULE

Additional Obligations relating to Sub-loans

- (1) BADESUL shall make available the proceeds of the Loan to eligible Sub-borrowers in accordance with the provisions of Subloan Agreements, satisfactory to the Bank.
- (2) The proceeds of the merchandise transfer tax (Imposto sobre Circulacao de Mercadorias e Servicos) collected by the Borrower and due to the Eligible Municipalities shall be used as collateral for the respective Sub-loans, in accordance with local practice. BADESUL shall obtain guarantees, satisfactory to the Bank, from Sub-borrowers other than Municipalities.

(3) BADESUL, shall verify the borrowing limits of each Eligible Sub-borrower for the purpose of entering into a Sub-loan Agreement in accordance with paragraph (d) of Schedule 4 to the Loan Agreement, process the Sub-loans for Eligible Sub-projects and disburse the proceeds of the Sub-loans in a manner consistent with the provisions of this Agreement and the Manual.

(4) BADESUL shall take all necessary action and exercise all of its rights in the Sub-loan Agreement provided, including suspension or termination of the right of the Eligible Sub-borrowers to use the proceeds of the Sub-loans upon failure by any Eligible Sub-borrower to perform any of its obligations under the respective Sub-loan Agreement.

(5) BADESUL shall cause the Financial Agents to retain the merchandise transfer tax (Imposto sobre Circulacao de Mercadorias e Servicos) due to the Municipality by the Borrower as collateral for the corresponding Sub-loans, as provided in each Sub-loan Agreement.

