

CONFORMED COPY

RFT GRANT NUMBER TF026659  
CEC GRANT NUMBER TF026655

**Rain Forest Trust Fund Grant  
and  
CEC Grant Agreement**

**(Demonstration Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**acting as Trustee of the Rain Forest  
Trust Fund and of Grant Funds provided by the  
Commission of European Communities**

**and**

**BANCO do BRASIL S.A.**

**Dated October 31, 1994**

**RFT GRANT NUMBER TF026659  
CEC GRANT NUMBER TF026655**

**RAIN FOREST TRUST FUND AND CEC GRANT AGREEMENT**

AGREEMENT, dated October 31, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as trustee of grant funds provided by certain members of the Bank and by the Commission of the European Communities (the CEC) into the Rain Forest Trust Fund (RFT), and of grant funds provided by the CEC (the Bank in such capacities to be referred to as the Trustee) and BANCO DO BRASIL S.A. (the Recipient).

WHEREAS (A) the International Bank for Reconstruction and Development (the Bank) pursuant to Resolution No. 92-2 of March 24, 1992, of the Executive Directors of the Bank (the Resolution), established the RFT to assist in the financing of a pilot program (the Pilot Program) with the overall objective of maximizing the environmental benefits of Brazil's rain forests in a manner consistent with its developmental goals through the implementation of a sustainable development approach that will contribute to a continuing reduction of the rate of deforestation of such forests;

WHEREAS (B) certain members of the Bank and the CEC (the Donors) have agreed to provide resources by way of grants into the RFT and the Donors have requested the Bank, and the Bank has agreed, to administer such grant funds as trustee, for the purposes of, and in accordance with the provisions of the Resolution;

WHEREAS (C) pursuant to a letter agreement dated September 20, 1994 between the CEC and the Bank, the CEC has requested the Bank, and the Bank has agreed to, administer as trustee grant funds to be made available by the CEC for the financing of certain programs and projects supported by the Pilot Program, in accordance with the provisions of such letter agreement;

WHEREAS (D) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested assistance from the resources of the RFT and of the CEC in the financing of the Project;

WHEREAS (E) the Trustee has determined that the RFT's financial assistance (the RFT Grant) would be in accordance with the provisions of the Resolution;

WHEREAS (F) the CEC has agreed to make available to the Recipient a grant (the CEC Grant) out of the funds referred to in (C) above to finance the Project described in Schedule 2 to this Agreement;

WHEREAS (G) the Federative Republic of Brazil, through a letter from its Minister of the Environment and Legal Amazon (the MMA), dated December 8, 1993, to the Trustee, has agreed that the resources of the RFT approved for the financing of the Project be provided directly to the Recipient under the terms and conditions set forth in this Agreement;

WHEREAS (H) the Recipient hereby represents that there are no impediments, under the laws of Brazil or under its own by-laws and internal corporate rules, for the Recipient to carry out the Project and perform each of its obligations under this Agreement;

WHEREAS (I) the Recipient intends, with the support of the Trustee, to contract with the Kreditanstalt für Wiederaufbau (KfW) additional funds from the Federal Republic of Germany to assist in further financing the Project on terms and conditions set forth in an agreement to be entered between the Recipient and the KfW;

WHEREAS the Trustee has agreed, on the basis, *inter alia*, of the foregoing, to extend the RFT Grant and the CEC Grant to the Recipient 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. (a) The following provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 1, 1985, with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (6), (8), (9), (10), (11), (15), (18) and (20), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Section 4.01 and the first sentence of Section 4.09;

- (v) Article V;
  - (vi) Sections 6.01, 6.02 (a), (c), (e), (g), (i) and (k), 6.03, 6.04 and 6.06;
  - (vii) Sections 9.01 (a), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
  - (viii) Section 10.03;
  - (ix) Article XI; and
  - (x) Sections 12.01, 12.02, 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (8) thereof and the last use of such term in Section 5.01 thereof, means the Trustee, except that in Section 6.02, the term "Bank" shall also include the International Bank for Reconstruction and Development acting in its own capacity;
  - (ii) the term "Borrower", wherever used in the General Conditions, means the Recipient;
  - (iii) the term "Loan Agreement", wherever used in the General Conditions, means this Agreement;
  - (iv) the term "Loan", wherever used in the General Conditions, means the RFT Grant and the CEC Grant or any of them; and
  - (v) the term "Loan Account", wherever used in the General Conditions, means the RFT Grant Account and the CEC Grant Account or any of them, the accounts opened by the Trustee on its books in the name of the Recipient to which the amounts of the RFT Grant and of the CEC Grant, respectively, are credited.

Section 1.02. Wherever used in this Agreement, 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) "Atlantic Forest" means the area defined in Brazil's Presidential Decree N° 750 of February 10, 1993, within which the Brazilian Mata Atlântica referred to in paragraph 4 of Article 225 of the Brazilian Constitution is located;

(b) "Beneficiary" means any entity in the public or private sector responsible for the carrying out of a Subproject;

(c) "CMA" means the Comissão da Mata Atlântica (the Atlantic Forest Commission), an arrangement existing among several non-governmental organizations concerned with the protection of the Atlantic Forest;

(d) "CMA Agreement" means the agreement referred to in Section 3.01 (c) of this Agreement;

(e) "EC" means the executive commission established pursuant to MMA's Portaria N° 146 of May 12, 1994, and referred to in Section 3.01 (d) (ii) of this Agreement for the purposes of, inter alia, deciding which Subproject shall be funded through Subgrants, and reviewing and evaluating the progress reports in respect of each Beneficiary;

(f) "ECU" means European Currency Unit, the currency unit of CEC;

(g) "GTA" means the Grupo de Trabalho Amazônico (the Amazon Working Group), an association of non-governmental organizations with headquarters in the city of Brasília;

(h) "GTA Agreement" means the agreement referred to in Section 3.01 (c) of this Agreement;

(i) "Institutional Strengthening Plan" means the plan referred to in Section 3.01 (c) (iii) of this Agreement;

(j) "Legal Amazon" means the area defined in Brazil's Law No. 5173, of October 27, 1966, within which the Brazilian Floresta Amazônica referred to in paragraph 4 of Article 225 of the Brazilian Constitution is located;

(k) "MMA Agreement" means the agreement referred to in Section 3.01 (d) of this Agreement;

(l) "Operational Manual" means the manual prepared by the MMA dated September 1994, which describes, inter-alia, the criteria for selection and

procedures for the carrying out of Subprojects, as the same may be amended from time to time by agreement between the Trustee and the Recipient;

(m) "Other Services" means services other than consultants' services required by the Project including, inter alia, printing, graphics, packaging, editing, production of videos and radio programs;

(n) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(o) "Subgrant" means a grant to be made or proposed to be made by the Recipient to a Beneficiary out of the proceeds of the RFT Grant and of the CEC Grant, to finance a Subproject;

(p) "Subgrant Agreement" means the agreement referred to in Section 3.01 (b) of this Agreement;

(q) "Subproject" means a pilot project to be carried out by a Beneficiary, selected and prepared in accordance with the Operational Manual, and approved by the EC, consisting of investments and other activities to be financed by a Subgrant;

(r) "TS" means the technical secretariat to be established, pursuant to Section 3.01 (d) (ii) of this Agreement, within the MMA for the purposes of, inter alia, being responsible for carrying out Part C of the Project;

(s) "UNDP" means the United Nations Development Programme;

(t) "UNDP Agreement" means the agreement referred to in Section 3.01 (e) of this Agreement.

## ARTICLE II

### The RFT Grant and the CEC Grant

Section 2.01. The Trustee agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the RFT Grant in the amount of three million Dollars (\$3,000,000) and the CEC Grant in the amount of four million ECUs (4,000,000 ECU).

Section 2.02. (a) The amount of the RFT Grant and of the CEC Grant may be withdrawn from the RFT Grant Account and from the CEC Grant Account, respectively, in accordance with the provisions of Schedule 1 to this Agreement

for expenditures made (or, if the Trustee shall so agree, to be made) in respect of the reasonable cost of goods and services required for carrying out the Project and to be financed out of the proceeds of the RFT Grant and of the CEC Grant.

(b) The Recipient shall, for the purposes of the Project, open and maintain in Dollars a special deposit account for the RFT Grant and a special deposit account for the CEC Grant, in a commercial bank acceptable to the Trustee on terms and conditions satisfactory to the Trustee, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be April 30, 2000 or such later date as the Trustee shall establish, after consultation with the Recipient. The Trustee shall promptly notify the Recipient of such later date.

Section 2.04. The Trustee shall not be obligated to make any payment under this Agreement except to the extent it shall have received funds for the purposes of the Project from the Donors or the CEC, as the case may be, as referred to in Recitals (B) and (C) of the Preamble to this Agreement.

### **ARTICLE III**

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

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall: (i) with the participation of MMA, through the MMA Agreement: (A) carry out Part A of the Project; (B) cause GTA and CMA, through the GTA and CMA Agreement, respectively, to carry out Part B of the Project; and (ii) cause the MMA to carry out, through the MMA Agreement, Part C of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, managerial and financial practices and in accordance with the provisions of the Operational Manual, in particular its provisions concerning ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purposes of the carrying out of Part A of the Project, the Recipient shall transfer to each Beneficiary, on a grant basis, the proceeds of the RFT Grant and of the CEC Grant allocated to finance a Subproject, under an agreement satisfactory to the Trustee (the Subgrant Agreement), which shall include, inter alia, the terms and conditions set forth in Schedule 4 to this Agreement.

(c) For the purposes of the carrying out of Part B of the Project, the Recipient shall enter into agreements with the GTA and CMA, satisfactory to the Trustee (the GTA Agreement and the CMA Agreement, respectively), whereby: (i) the Recipient shall transfer, on a grant basis, to GTA and CMA, respectively, the relevant proceeds of the RFT Grant and of the CEC Grant allocated to Categories 2 (a) and 2 (b) of the table in paragraph 1 of Schedule 1 to this Agreement; (ii) GTA and CMA shall undertake to carry out Parts B (i) and B (ii), respectively, of the Project as set forth or referred to in this Agreement; (iii) GTA shall undertake to carry out Part B (i) of the Project in accordance with an institutional strengthening plan satisfactory to the Trustee (the Institutional Strengthening Plan) describing GTA's budget and activities to be carried out under the Project; and (iv) GTA and CMA, respectively, shall provide to the Recipient any assistance it may require to comply with the provisions of this Agreement with respect to Parts B (i) and B (ii) of the Project, respectively.

(d) For the purposes of carrying out Part C of the Project, and of regulating the participation of MMA in Parts A and B of the Project, the Recipient shall enter into an agreement with MMA, satisfactory to the Trustee (the MMA Agreement), whereby: (i) the Recipient shall provide to MMA the goods and services required for the carrying out of Part C of the Project; (ii) MMA shall maintain the EC with functions, responsibilities and administrative structure satisfactory to the Trustee and members with adequate qualifications; (iii) MMA shall establish and thereafter maintain the TS with functions, responsibilities and administrative structure satisfactory to the Trustee and key staff in adequate number and with adequate qualifications; and (iv) MMA shall, through TS, undertake to: (A) carry out such Parts of the Project as set forth or referred to in this Agreement and to provide to the Recipient any assistance it may require to comply with the provisions of this Agreement with respect to such Parts of the Project; (B) participate in annual reviews of the Project implementation in conjunction with the Recipient and the Trustee each month of August during Project implementation, beginning in 1995, all in accordance, when applicable, with the Operational Manual which will constitute an integral part of the MMA Agreement; (C) furnish to the Trustee an annual operating plan satisfactory to the Trustee, describing the activities to be carried out and expenditures to be made by the TS under the Project in the first year of this Agreement; and (D) not later than December 31 of each year of Project implementation, furnish to the Trustee an annual operating plan satisfactory to the Trustee, describing the activities to be carried out and expenditures to be made by the TS under the Project for the next succeeding calendar year.

(e) For the purposes of procuring the goods and services to be provided under the MMA Agreement, and required for the carrying out of Part



C of the Project, the Recipient shall use the services of the UNDP, through an agreement satisfactory to the Trustee (the UNDP Agreement).

(f) The Recipient shall exercise its rights and comply with its obligations under the Subgrant Agreements, the GTA Agreement, the CMA Agreement, the MMA Agreement and the UNDP Agreement in such a manner as to protect the interests of the Recipient and the Trustee and to accomplish the purposes of the RFT Grant and of the CEC Grant, and, except as the Trustee shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce the Subgrant Agreements, the GTA Agreement, the CMA Agreement, the MMA Agreement (including the Operational Manual) or the UNDP Agreement, or any provision thereof, in a manner in which in the opinion of the Trustee, may materially and adversely affect, prevent or interfere with the carrying out of the Project or the performance by the Recipient, the Beneficiaries, the MMA, the GTA, the CMA and the UNDP of their respective obligations under this Agreement, the Subgrant Agreements, the MMA Agreement, the GTA Agreement, the CMA Agreement and the UNDP Agreement.

Section 3.02. Except as the Trustee 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 RFT Grant and of the CEC Grant shall be governed by the provisions of Schedule 3 to this Agreement.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Recipient shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices its operations, resources and expenditures in respect of the Project.

(b) The Recipient shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Trustee, such audit to include a sample, satisfactory to the Trustee, of a physical inspection of goods and works in the field and supporting documentation for procurement decisions;

- (ii) furnish to the Trustee 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 Trustee shall have reasonably requested;
- (iii) furnish to the Trustee monthly certified statements of the Special Accounts;
- (iv) furnish to the Trustee such other information concerning said records and accounts and the audit thereof as the Trustee shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the RFT Grant Account and from the CEC Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Trustee has received the audit report for the fiscal year in which the last withdrawal from the RFT Grant Account and from the CEC Grant Account were made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Trustee's and the European Community's representatives to examine such records as the Trustee or the CEC shall from time to time reasonably request; 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 Trustee**

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

(a) the Federative Republic of Brazil or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Recipient or for the suspension of its operations;

(b) the Federative Republic of Brazil or any other authority having jurisdiction shall have taken any action, including the enactment or issuance of legislation or regulations, which, in the opinion of the Trustee, may adversely affect, prevent, or interfere with, the carrying out of the Project or the performance by the Recipient of any of its obligations under this Agreement;

(c) the Federative Republic of Brazil shall have failed to afford a reasonable opportunity for representatives of the Trustee and of the European Community to visit any part of its territory for purposes related to the Project;

(d) the Federative Republic of Brazil: (i) shall have been suspended from membership in or ceased to be a member of the Bank; or (ii) shall have ceased to be a member of the International Monetary Fund;

(e) the Recipient shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by the Recipient or by others whereby any of the assets of the Recipient shall or may be distributed among its creditors;

(f) MMA shall have failed to perform any of its obligations under the MMA Agreement.

## **ARTICLE VI**

### **Arbitration**

Section 6.01. Any dispute arising out of or relating to this Agreement which is not settled by agreement of the parties shall be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules in force on the date of this Agreement. The place of arbitration shall be Washington, D.C. In the event of a conflict between the UNCITRAL Arbitration Rules and the terms of this Agreement, the terms of this Agreement shall govern.

## **ARTICLE VII**

### **Effectiveness; Termination**

Section 7.01. The following events are specified as additional conditions to the effectiveness of the RFT Grant and of the CEC Grant within the meaning of Section 12.01 (c) of the General Conditions:

- (a) the TS has been established;
- (b) the MMA Agreement and the UNDP Agreement have become effective; and
- (c) the annual operating plan referred to in Section 3.01 (d) (iv) (C) of this Agreement has been furnished to the Trustee.

Section 7.02. The date January 31, 1995 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 7.03. This Agreement shall continue in effect until the parties to this Agreement have fulfilled all their obligations hereunder.

## **ARTICLE VIII**

### **Representative of the Recipient; Addresses**

Section 8.01. The President of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Banco do Brasil S.A.  
Departamento de Fundos e Programas - DEFUP  
SBS - Edifício Sede I - 5º andar  
70070 - 100 - Brasília, D.F.  
Brazil

Telex:

061-230-6173

For the Trustee:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

Telex:

INTBAFRAD  
Washington, D.C.

197688 (TRT),  
248423 (RCA),  
64145 (WUI)

With copies to:

Ministério do Meio Ambiente e da Amazônia Legal  
Esplanada dos Ministérios, Bloco "B" - 5º andar  
70068-900 Brasília, D.F.  
Brazil

Telex:

061-1584

Secretaria de Assuntos Internacionais  
Secretaria de Planejamento, Orçamento e Coordenação da  
Presidência da República  
Esplanada dos Ministérios, Bloco "K" - 5º andar  
70040-906 Brasília, D.F.  
Brazil

Telex:

061-1146

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
as Trustee of the Rain Forest Trust Fund and of  
Grant Funds provided by the Commission of

European Communities

By /s/ Gobind T. Nankani

Director, Country Department I  
Latin America and the Caribbean Region

BANCO DO BRASIL S.A.

By /s/ Paulo de Tarso Medeiros

Authorized Representative

### SCHEDULE 1

#### Withdrawal of the Proceeds of the RFT Grant and of the CEC Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the RFT Grant and of the CEC Grant, the allocation of the amounts of the RFT Grant and of the CEC Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the RFT Grant Allocated in Dollar</u>	<u>Amount of the CEC Grant Allocated in ECU</u>	<u>% of Expendi- ture to be Financed</u>
(1) Subgrants		3,000,000	100%
(2) For Part B of the Project:			
(a) For GTA:			100% for expendi- tures made
(i) Consultant		190,000	

	and Other Services			during 1994 and 1995; 80% for expenditures made during 1996; and 50% for expenditures made during 1997 and thereafter.
	(ii) Travel Expenses		210,000	
	(iii) Goods		70,000	
	(b) For CMA			
	(i) Consultant and Other Services		15,000	100%
	(ii) Travel Expenses		50,000	100%
	(iii) Goods		5,000	100%
(3)	For Part C of the Project			
	(a) Consultant and Other Services	2,000,000		100%
	(b) Travel Expenses	550,000		100%
	(c) Goods	100,000		100%
(4)	Recipient's Fee	50,000	65,000	100% by the RFT Grant and 100% by the CEC Grant as the case may be
(5)	Auditing		50,000	100%

Costs

(6)	Unallocated	300,000	345,000
	TOTAL	3,000,000	4,000,000

2. For the purposes of this Schedule:

(i) the term "Recipient's Fee" means a fee for the services provided by the Recipient under this Agreement, in an amount equivalent to 1.65% of the payments made for eligible expenditures under Categories 1, 2 and 3 of the table in paragraph 1 above, from the RFT Grant Account and from the CEC Grant Account, in accordance with the provisions of this Agreement; and

(ii) the term "Auditing Costs" means payments for the auditing requirements, referred to in Section 4.01 (b) (i) to this Agreement, under terms and conditions satisfactory to the Trustee.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$100,000, may be made in respect of Category (2)(a) of the table in paragraph 1 of this Schedule, on account of payments of expenditures before that date but after August 1, 1994;

(b) under Category 2(a) of the table in paragraph 1 above, unless the GTA Agreement has been entered into between the parties thereto, and the Institutional Strengthening Plan has been furnished to the Trustee;

(c) made during a given period under contracts for consultants' services under Category 2(a)(i) of the table in paragraph 1 above, in the case withdrawals have been made for such contracts for expenditures made during a different period. For purposes of this paragraph, the term "period" means each of the following: (i) the years 1994 and 1995; (ii) the year 1996; and (iii) the year 1997 and thereafter;

(d) under Category 2(b) of such table, unless the CMA Agreement has been entered into between the parties thereto;

(e) under Part C of the Project, unless such expenditure has been included in the relevant annual operating plan referred to in Section 3.01 (d) (iv) (C) and (D) for the execution of such Parts of the Project during the relevant year;



and

(f) under any Subproject, unless the corresponding Subgrant Agreement has been entered into between the parties thereto, provided, however, that the Subprojects approved in the first meeting of the EC shall also have to be approved by the Trustee.

4. The Trustee may require withdrawals from the RFT Grant Account and from the CEC Account to be made on the basis of statement of expenditures under contract for goods costing less than one hundred thousand Dollars (\$100,000) equivalent and for works and Other Services costing less than one hundred and fifty thousand Dollars (\$150,000) equivalent, for services of consulting firms not exceeding one hundred thousand Dollars (\$100,000) equivalent and for services of individual consultants not exceeding fifty thousand Dollars (\$50,000) equivalent, under such terms and conditions as the Trustee shall specify by notice to the Recipient.

5. Notwithstanding the provisions of paragraph 1 above, if the Trustee shall have determined at any time that any payments made from the RFT Grant Account and from the CEC Grant Account were used for an expenditure not eligible for financing under this Schedule or were used in any manner contrary to the provisions of this Agreement, the Recipient shall, promptly upon notice, and in accordance with the instructions, from the Trustee, refund to the Trustee, for deposit in the RFT Grant Account and in the CEC Grant Account, respectively, an amount equal to the amount so used or the portion thereof specified by the Trustee.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to stimulate the development, adaptation and dissemination of environmentally, economically, and socially sustainable systems of natural resources management and conservation by communities in the Legal Amazon and Atlantic Forest.

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

#### Part A:      Subprojects

Financing of Subprojects in the areas of: (i) nature conservation; (ii)

environmentally sound management of already deforested land; or (iii) low impact use of native forest resources.

Part B:           GTA and CMA's Support

- (i) Institutional strengthening of GTA to reinforce its institutional capacity to carry out its activities, including the provision of support for Subproject proposal, preparation, and execution, and dissemination of its results.
- (ii) Support for CMA's activities in assisting Subproject proposal, preparation and execution, and dissemination of its results.

Part C:           Establishment and Support of the TS and EC

Establishment and institutional strengthening of the TS and EC for the purposes of: (i) analyzing and approving subprojects; (ii) coordinating, publicizing, monitoring and evaluating the other Parts of the Project; (iii) training for Project participants in various areas related to the Project; and (iv) evaluating, analyzing and disseminating relevant experiences through, inter alia, publications and radio programs.

\* \* \*

The Project is expected to be completed by October 31, 1999.

**SCHEDULE 3**

**Procurement and Consultants' Services**

Section I. Procurement of Goods and Works

Part A:           Local Competitive Bidding

- 1. Except as provided in Part B hereof, goods, works and Other Services shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Trustee.

Part B:           Local Shopping

- 1. Works and Other Services estimated to cost the equivalent of \$150,000 or less per contract and goods estimated to cost the equivalent of \$100,000 or less

per contract, may be procured under contracts awarded on the basis of a comparison of price quotations solicited from at least three suppliers or contractors, as the case may be, eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Trustee in May 1992 (the Guidelines).

2. In locations where less than three eligible contractors are available for the procurement of works or Other Services estimated to cost the equivalent of \$35,000 or less per contract, up to an aggregate amount equivalent to \$500,000, such works or Other Services may be directly contracted with a contractor eligible under the Guidelines.

3. In locations where less than three suppliers are available for the procurement of goods estimated to cost the equivalent of \$15,000 or less per contract, up to an aggregate amount of equivalent to \$500,000, such goods may be directly acquired from a supplier eligible under the Guidelines.

Part C: Review by the Trustee of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract to be awarded pursuant to the provisions of Part A of this Section, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Trustee pursuant to said paragraph 2 (d) shall be furnished to the Trustee prior to the making of the first payment out of the Special Accounts 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 the Special Accounts, said 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 Trustee pursuant to said paragraph 3 shall be furnished to the Trustee as part of the evidence to be furnished pursuant to paragraph 5 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditures.

(d) The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Part D: Special Provisions

Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement of goods and/or works to be undertaken pursuant to part A.1 hereof:

1. Contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.
2. Whenever required by the Bank, the invitation to bid shall be advertised for at least three consecutive days in a newspaper of wide circulation in Brazil.
3. The arrangements, under the invitation to bid, for a joint-venture (consórcio) of Brazilian and foreign firms shall be approved in advance by the Bank in each case.
4. The invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.
5. The purchaser shall not, without the Bank's prior approval, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.

Section II. Employment of Consultants

1. In order to assist the Recipient, the Beneficiaries, the GTA, the CMA and the TS in the carrying out of the Project, the Recipient shall employ or cause to be employed consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Trustee. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Trustee 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 Trustee in August 1981 (the Consultants Guidelines).

2. For complex, time based-assignments, the Recipient shall employ such consultants under contracts using the standard form of contract for consultant's services issued by the Bank for the use of its Recipients, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Recipient shall use other standard forms agreed with the Bank.

3. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultants Guidelines requiring prior Trustee review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, this exception to prior Trustee review shall not apply to: (a) the terms of reference for such contracts; (b) single source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Trustee; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

#### **SCHEDULE 4**

##### **Terms and Conditions of Subgrants**

Subgrants shall be provided on terms whereby the Recipient shall obtain, through the Subgrant Agreements, rights adequate to protect the interests of the Trustee and the Recipient, including the right to:

(a) require the Beneficiary to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial, environmental and ecological standards, the provisions of the Operational Manual and the terms and conditions of the proposal approved by the EC;

(b) require that:

(i) the goods, works and consultants' services to be financed out of the proceeds of the RFT Grant and of the CEC Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and

(ii) such goods, works and consultants' services shall be used

exclusively in furtherance of the objectives of the Project;

(c) require the Beneficiary to maintain records and separate accounts adequate to reflect in accordance with sound accounting practices its operations, resources and expenditures in respect of the Subproject;

(d) inspect, by itself, or allow the representatives of the Trustee and/or the TS, and/or the European Community to inspect, the goods and plants included in the Subproject, the operation thereof and any relevant records and documents;

(e) obtain all such information as the Trustee or the TS shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits derived from the Subproject; and

(f) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Subgrant upon failure by the Beneficiary to perform its obligations under the Subgrant Agreement.

## **SCHEDULE 5**

### **Special Accounts**

1. For the purposes of this Schedule:

(a) the term "eligible Categories" for the CEC Grant means Category (1), (2), (4) and (5) and for the RFT Grant means Categories (3) and (4) 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 RFT Grant or of the CEC Grant 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 Allocations" means the amounts of \$200,000 and \$270,000, to be withdrawn from the RFT Grant Account and from the CEC Grant Account, respectively, and deposited into the relevant Special Accounts pursuant to paragraph 4 (a) of this Schedule.

2. Payments out of the Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. Any earnings arisen from available funds in the Special Accounts shall be used, unless otherwise agreed with the Trustee, solely for the purpose of financing the Project.

4. After the Trustee has received evidence satisfactory to it that the Special Accounts have been duly opened, withdrawals of the Authorized Allocations and subsequent withdrawals to replenish the Special Accounts shall be made as follows:

(a) For withdrawals of the Authorized Allocations, the Recipient, shall furnish to the Trustee a request or requests for deposits which do not exceed the respective aggregate amount of the Authorized Allocations. On the basis of such request or requests, the Trustee shall, on behalf of the Recipient, withdraw from the RFT Grant Account or from the CEC Grant Account and deposit in the respective Special Account such amounts as the Recipient shall have requested.

(b) (i) For replenishment of the Special Accounts, the Recipient shall furnish to the Trustee requests for deposits into the relevant Special Account at such intervals as the Trustee shall specify.

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Trustee the documents and other evidence required pursuant to para-graph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Trustee shall, on behalf of the Recipient, withdraw from the RFT Grant Account or from the CEC Grant Account and deposit into the respective Special Account such amounts as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the relevant Special Account for eligible expenditures. All such deposits shall be withdrawn by the Trustee from the RFT Grant Account or from the CEC Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

5. For each payment made by the Recipient out of the Special Accounts, the Recipient shall, at such time as the Trustee shall reasonably request, furnish to the Trustee such documents and other evidence showing that such payment was

made exclusively for eligible expenditures.

6. Notwithstanding the provisions of paragraph 4 of this Schedule, the Trustee shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Trustee shall have determined that all further withdrawals should be made by the Recipient directly from the RFT Grant Account or from the CEC Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the RFT Grant or of the CEC Grant Account allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Trustee pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the respective Authorized Allocation.

Thereafter, withdrawal from the RFT Grant Account or from the CEC Grant Account of the remaining unwithdrawn amount of the RFT Grant and of the CEC Grant, respectively, allocated to the eligible Categories shall follow such procedures as the Trustee shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Trustee shall have been satisfied that all such amounts remaining on deposit in the relevant Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

7. (a) If the Trustee shall have determined at any time that any payment out of the Special Accounts: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Trustee, the Recipient shall, promptly upon notice from the Trustee: (A) provide such additional evidence as the Trustee may request; or (B) deposit into the relevant Special Account (or, if the Trustee shall so request, refund to the Trustee) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Trustee shall otherwise agree, no further deposit by the Trustee into the Special Accounts shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Trustee shall have determined at any time that any amount outstanding in the Special Accounts will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Trustee, refund to the Trustee such outstanding amount.



(c) The Recipient may, upon notice to the Trustee, refund to the Trustee all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Trustee made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the RFT Grant Account and to the CEC Grant Account, as the case may be, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

