

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF090274

Global Environment Facility Trust Fund Grant Agreement

(Caatinga Conservation and Management Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**
acting as an Implementing Agency of the Global Environment Facility

and

FUNDAÇÃO LUÍS EDUARDO MAGALHÃES - FLEM

Dated June 27, 2007

GEF TRUST FUND GRANT NUMBER TF090274

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT dated June 27, 2007, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“World Bank”), acting as an implementing agency of the Global Environment Facility (“GEF”); and FUNDAÇÃO LUÍS EDUARDO MAGALHÃES (“FLEM”), the Recipient of the hereinbelow defined Grant.

The World Bank and the Recipient hereby agree as follows:

ARTICLE I – STANDARD CONDITIONS; DEFINITIONS

- 1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 20, 2006 (“Standard Conditions”), constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in the Appendix to this Agreement.

ARTICLE II – THE PROJECT

- 2.01. The Recipient declares its commitment to the objective of the project described in Schedule 1 to this Agreement (“Project”). To this end, the Recipient shall carry out the Project or cause the Project to be to be carried out in accordance with the provisions of Article II of the Standard Conditions.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE III – THE GRANT

- 3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to ten million United States Dollars (\$10,000,000) (“Grant”) to assist in financing the Project.

- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

ARTICLE IV – ADDITIONAL REMEDIES

- 4.01. The Additional Events of Suspension referred to in Section 4.02 (i) of the Standard Conditions consist of the following:
- (a) The World Bank has declared the Recipient ineligible to be awarded a contract financed by the World Bank.
 - (b) The Recipient's Articles of Agreement have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement.
 - (c) The Technical Cooperation Agreement have been amended, suspended, abrogated, repealed, waived or not complied with, in the opinion of the Bank.

ARTICLE V – EFFECTIVENESS; TERMINATION

- 5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied.
- (a) The execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental and corporate action.
 - (b) The Operational Manual has been adopted by the Recipient in form and substance satisfactory to the Bank.
 - (c) The Technical Cooperation Agreement referred to in Section I.B of Schedule 2 to this Agreement has been executed on behalf of the Recipient and the Project States.
 - (d) The Member Country's State of Bahia has adopted a decree in form and substance satisfactory to the Bank for the creation of the MT for the Member Country's State of Bahia.
 - (e) If World Bank so requests, the condition of the Recipient, as represented or warranted to the World Bank at the date of this Agreement, has undergone no material adverse change after such date.

- 5.02. As part of the evidence to be furnished pursuant to Section 5.01 (a) of this Agreement, there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank, of counsel acceptable to the World Bank, showing the following matters:
- (a) on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms; and
 - (b) on behalf of the Recipient and the Project States, that the Technical Cooperation Agreement has been duly authorized or ratified by, and executed and delivered on their behalf and is legally binding upon them in accordance with their terms.
- 5.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.
- 5.04. *Termination for Failure to Become Effective.* This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 90 days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

ARTICLE VI – RECIPIENT’ REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the General Superintendent of FLEM.
- 6.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

FUNDAÇÃO LUÍS EDUARDO MAGALHÃES - FLEM
Superintendência Geral
3ª avenida, 310
Centro Administrativo da Bahia - CAB
Salvador, BA 41745-005
Brazil

Facsimile: (55 – 71) 31 15 39 93

With copy to:

SEAIN - Secretaria de Assuntos Internacionais do
Ministério do Planejamento, Orçamento e Gestão
Esplanada dos Ministérios - Bloco K - 5º andar
70040-906 Brasília, DF
Brazil

Facsimile: (55-61) 3225-4022

- 6.03. The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391

AGREED at Brasilia, Federative Republic of Brazil, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
acting as an Implementing Agency of the
Global Environment Facility

By /s/ John Briscoe

Authorized Representative

FUNDAÇÃO LUÍS EDUARDO MAGALHÃES - FLEM

By /s/ Vera Lúcia Oliveira de Queiroz

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to contribute to the preservation, conservation and sustainable management of the biodiversity of the Caatinga Biome in the Project States, while improving the quality of life of its inhabitants, through the introduction of sustainable development practices.

The Project consists of the following Components:

Component 1. Institutional and Policy Support for IEM

Promote the adoption of an IEM approach for the Caatinga Biome in order to change attitudes and behaviors toward conservation and foster a policy and regulatory framework supportive of the IEM approach by:

- (a) supporting policy and institutional framework for IEM;
- (b) supporting the consolidation and expansion of the Project States' systems of protected areas as well as the improvement of their management; and
- (c) strengthening institutional capacity and knowledge management for IEM for Project States, relevant stakeholders (including civil society), local agencies, non-governmental organizations, indigenous and *Quilombola* (African-Brazilian) communities to effectively implement activities aimed at protecting the ecosystem.

Component 2. Promotion of IEM Practices

Support the implementation of cost-effective and replicable IEM demonstration subprojects (the Demonstration Subprojects) in the following modalities:

- (a) rehabilitation of degraded areas;
- (b) conservation and sustainable use of biodiversity;
- (c) water and land resources management;
- (d) development of sustainable and cost-effective productive systems;
- (e) cultural recovery; and
- (f) environmental incentives.

Component 3. Project Monitoring, Evaluation, Dissemination and Management

Support the Recipient and MTs in each Project State to efficiently and effectively implement, supervise, coordinate and administer all the activities carried out under the Project by:

- (a) developing and implementing a base line and a monitoring and evaluation system that are cost effective, measurable and meaningful in order to provide a framework for result and performance reviews;
- (b) disseminating Project findings and lessons learned on effective ecosystem management strategies and mechanisms; and
- (c) Strengthening: (i) the Recipient's capacity to carry out reporting, financial management and procurement activities under the Project; and (ii) the MT's management capacity to coordinate and implement all Project components.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional Arrangements

1. FLEM shall carry out Component 3(c)(i) of the Project and shall make available the proceeds of the Grant in order for the Project States to carry out Components 1, 2, 3(a), 3(b) and 3(c)(ii) of the Project, in accordance with the Operational Manual, including the Strategic Environmental Assessment, the Process Frameworks, the Policy Frameworks for Indigenous Peoples and *Quilombolas* and the Procurement Plan, and except as the Bank shall otherwise agree, shall not amend or waive any provision of these documents without the Bank's prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail.
2. FLEM shall ensure, until the completion of the execution of the Project and no later than one month after the Effective Date, that SUDES shall have competent staff in adequate numbers with qualifications and experience satisfactory to the Bank, including the following key staff: a general coordinator, a Project manager, an administrative and financial coordinator, a procurement specialist and a financial management specialist.
3. At least once a year during Project implementation on or about November 30, commencing on any such date after the Effective Date, FLEM shall prepare in cooperation with the Project States and furnish to the Bank an annual operational plan (the Annual Operational Plan) for the following twelve months.
4. On or about October 31, 2009, or such other date as the Bank shall agree upon, the Recipient shall : (a) carry out jointly with the Bank and with the Project States a mid-term review of the implementation of operations under the Project (Midterm Review). The Midterm Review shall cover the progress achieved in the implementation of the Project; and (b) following such Midterm Review, act promptly and diligently to take any corrective action as shall be recommended by the Bank.
5. If at any time, the Bank determines that any portion of the Grant proceeds was used for items improperly procured in violation of Section III to this Schedule, was not used for Eligible Expenditures or, in case of Demonstration Subprojects was not supported by evidence of satisfaction of other criteria set forth in this Agreement or in the Operational Manual (including compliance with the Negative List and the eligibility criteria for Grantees), the Recipient shall refund any such portion to the Bank as the Bank shall specify by notice to the Recipient.

6. The Recipient shall, in respect to Component 2 of the Project,: (a) have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles by independent auditors acceptable to the Bank; (b) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such fiscal year, the procurement audit report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (c) furnish to the Bank such other information concerning said procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.
- B. Technical Cooperation Agreement
1. To facilitate the carrying out of Components 1, 2, 3(a), 3(b) and 3(c)(ii) of the Project, the Recipient shall make the proceeds of the Grant allocated from time to time to Categories (1), (2) and (3)(b) of the table set forth in Section IV.A.2 of this Schedule available to the Project States under a technical cooperation agreement (the “Technical Cooperation Agreement”) between FLEM and the Project States in order to implement said Components.
 2. The Recipient shall, under the Technical Cooperation Agreement, obtain adequate rights, including the right to: (a) suspend or terminate the right of the Project States to use the proceeds under the Technical Cooperation Agreement, declare the Technical Cooperation Agreement to be terminated and/or obtain a refund of all or any part of the proceeds under of the Technical Cooperation Agreement then withdrawn, upon the Project States’ failure to perform any of their obligations under the Technical Cooperation Agreement; and (b) require each Project State to: (i) carry out its relevant activity under the Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank as further described in the Operational Manual, the Strategic Environmental Assessment, the Process Frameworks, the Policy Frameworks for Indigenous Peoples and *Quilombolas* and the Procurement Plan; (ii) provide, promptly as needed, the resources required for the purpose of said activity; (iii) select eligible Demonstration Subprojects and make all pertinent recommendations in this respect through a notification sent to the Recipient as per the approval processes detailed in the Operational Manual; (iv) maintain, until the completion of the execution of the Project, bi-annual meetings with its respective State Committee for the Caatinga Biosphere Reserve and submit reports of said meetings to the Recipient and to the Bank; (v) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators set forth in sub-paragraph A.1(b) of Section II below, the progress of its respective activity under the Project and the achievement of its objectives; (vi) send Project Reports on its respective activity under the Project and in

accordance with the provisions of Section 2.06 of the Standard Conditions to the Recipient and to the Bank each November 30 and May 31 commencing on any such date after the Effective Date; (vii) (A) maintain a resource recording system and prepare resource statements in accordance with standards acceptable to the Bank, in a manner adequate to reflect the allocation of its own resources, related to the activities carried out under the Technical Cooperation Agreement; and (B) at the request of the Bank, have such statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish said statements as so audited to the Bank; (viii) enable the Bank or cause the Bank to be enabled under the Technical Cooperation Agreement to inspect the activities carried out, their operation and any relevant records and documents; and (ix) prepare and furnish to the Recipient and to the Bank all such information as the Recipient or the Bank shall reasonably request relating to the foregoing or cause all such information to be prepared and furnished to the Recipient and the Bank under the Technical Cooperation Agreement.

3. The Recipient shall exercise its rights under the Technical Cooperation Agreement in such manner as to protect its own interests, the interests of the Project States, the Member Country and those of the Bank in order to accomplish the purposes of the Grant. Except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Technical Cooperation Agreement or any of its substantive provisions (such as objectives of the activities carried out and compliance with the Operational Manual, the Strategic Environmental Assessment, the Process Frameworks, the Policy Frameworks for Indigenous Peoples and *Quilombolas* and the Procurement Plan). In case of any conflict between the terms of the Technical Cooperation Agreement and those of this Agreement, the terms of this Agreement shall prevail.

C. Demonstration Subprojects.

1. The Recipient shall, in order to finance each eligible Demonstration Subproject, make a Sub-grant to a Grantee under Component 2 of the Project in accordance with eligibility criteria and selection procedures acceptable to the Bank as detailed in the Operational Manual which shall include an application in form and substance acceptable to the Bank in accordance with the application model form contained in the Operational Manual, with, *inter alia*: (a) an appraisal and budget for the proposed Demonstration Subproject with a description of the expenditures proposed to be financed out of the proceeds of the Grant and out of the Grantee's own resources; (b) a detailed description of how the relevant Grantee and such Demonstration Subproject meet the eligibility criteria set forth in the Operational Manual and comply with the Negative List; (c) a plan for the administration, operation and maintenance of the proposed Demonstration Subproject; (d) evidence, when necessary, that land and rights with respect to the land are physically and legally available for the purposes of the proposed

Demonstration Subproject; (e) evidence that the Grantee holds the corresponding legal rights for the purposes of the proposed Demonstration Subproject; (f) evidence, when necessary, that the Grantee holds the corresponding environmental permits required for the execution of the works planned under the proposed Demonstration Subproject; (g) whenever a Demonstration Subproject requires the undertaking of environmental mitigation measures, the corresponding environmental assessment, as such assessment shall have been prepared in accordance with the Strategic Environmental Assessment and with terms of reference satisfactory to the Bank; (h) whenever a Demonstration Subproject requires the undertaking of measures to ensure the development and equal access of indigenous peoples and *Quilombolas* communities, the corresponding IPDP, when applicable, prepared in accordance with the Policy Frameworks for Indigenous Peoples and *Quilombolas*; (i) whenever a Demonstration Subproject requires the undertaking of resettlement, the corresponding Resettlement Plan, when applicable, prepared in accordance with the Process Frameworks; and (j) such other information as the Bank shall reasonably request in respect of the relevant Demonstration Subproject.

2. (a) The Recipient shall make a Sub-grant under an agreement (the Sub-grant Agreement) in accordance with the model form pertaining to the Operational Manual with the respective Grantee to finance an eligible Demonstration Subproject on terms and conditions approved by the Bank.
 - (b) The Recipient shall furnish to the Bank: (a) the complete application form described under paragraph C.1 (a) through (j) above for the first two Demonstration Subprojects (one for each Project State) presented under Component 2 of the Project, for its review and prior approval; and (b) thereafter on or about December 1 each year, commencing on any such date after the Effective Date, the complete list of Sub-grants executed during the preceding twelve months, including the name of the Grantee, the amount of the Sub-grant, the date in which the Sub-grant Agreement was executed, the activity to be financed and a confirmation that said activity does not fall under the Negative List prohibition.
 - (c) The Recipient shall, under each Sub-grant Agreement, obtain rights adequate to protect its interests, those of the Project States, the Member Country and of the Bank, including the right to: (i) suspend or terminate, in consultation with the respective Project State, the right of the Grantee to use the proceeds of the Sub-grant, declare the Sub-grant to be immediately terminated and/or obtain a refund of all or any part of the amount of the Sub-grant then withdrawn, upon the Grantee's failure to perform any of its obligations under the Sub-grant Agreement; and (ii) require each Grantee to: (A) carry out its Demonstration Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank as further described in the Operational

Manual, the Strategic Environmental Assessment, the Process Frameworks, the Policy Frameworks for Indigenous Peoples and *Quilombolas* and the Procurement Plan; (B) provide, promptly as needed, the resources required for the purpose of the Demonstration Subproject; (C) (1) procure the goods, works and services to be financed out of the Sub-grant in accordance with the provisions of this Agreement; and (2) maintain procurement records and at the request of the Bank, have such procurement records audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the procurement records so audited to the Bank; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Demonstration Subproject and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Demonstration Subproject; and (2) at the request of the Bank, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Bank; (F) enable the Bank or cause the Bank to be enabled under each Sub-grant Agreement to inspect any Demonstration Subproject, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the Bank all such information as the Recipient or the Bank shall reasonably request relating to the foregoing or cause all such information to be prepared and furnished to the Recipient and the Bank under each Sub-grant Agreement.

3. The Recipient shall exercise its rights under each Sub-grant Agreement in such manner as to protect its own interests, the interests of the Project States, those of the Member Country and those of the Bank in order to accomplish the purposes of the Grant. Except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Sub-grant Agreement or any of its substantive provisions (such as financial terms, objectives of the Demonstration Subproject, change in Grantee, and compliance with the Negative List). In case of any conflict between the terms of a Sub-grant Agreement and those of this Agreement, the terms of this Agreement shall prevail.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators set forth below in subparagraph (b) of this paragraph. Each Project Report shall cover the period of

one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

Performance Indicators	Target Date: End of the Project
1. Number of state or municipal sectoral policies or plans developed and adopted by or in the Project States in which IEM and biodiversity considerations are mainstreamed.	6
2. Number of protected areas consolidated with improved management effectiveness compared to baseline (SP1 Tracking Tool).	6
3. Number of protected areas created by the State of Bahia in biodiversity priority areas.	2
4. Number of RPPNs established by the State of Ceará.	2
5. Percentage of degraded lands rehabilitated under the Project when compared to specific baseline referred to in Operational Manual.	20%
6. Percentage of Grantees showing an improvement in their income compared to specific baseline referred to in Operational Manual.	15%

2. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date. In order to assist the Recipient in preparing the Completion Report, they shall employ consultants whose qualifications, experience and terms of reference are acceptable to the World Bank.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

3. The Recipient shall have their Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Procurement and Consultant Guidelines.** All goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(a) Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 (“Procurement Guidelines”) in the case of goods and works, and Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 (“Consultant Guidelines”) in the case of consultants’ services; and

(b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting
(d) Established Private or Commercial Practices which have been found acceptable to the World Bank for Demonstration Subprojects
(e) Community Participation procedures described in the Procurement Plan for Demonstration Subprojects

Contracts awarded on the basis of National Competitive Bidding are subject to the following additional provisions:

(a) 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 2.52 of the Procurement 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.

(b) 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.

(c) 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.

(d) The invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.

(e) 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.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based

Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-based Selection
(b) Selection under a Fixed Budget
(c) Least-Cost Selection
(d) Selection based on Consultants' Qualifications
(e) Single-source Selection
(f) Procedures set forth in Paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g) Sole Source Procedures for the Selection of Individual Consultants
(h) Established Private or Commercial Practices which have been found acceptable to the World Bank for Demonstration Subprojects

D. Review by the World Bank of Procurement Decisions

1. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) Article III of the Standard Conditions, (b) this Section, and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed inclusive of Taxes
(1) Goods, works, non-consultants' services, consultants' services, workshops and training under Components 1 and 3 of the Project	4,100,000	100%
(2) Goods, works, non-consultants' services and consultants' services required for Sub-grants under Component 2 of the Project	5,100,000	100% of amounts disbursed by the Recipient under Sub-grant Agreements
(3) Operating Costs (a) for FLEM (b) for MTs	600,000 200,000	100%
TOTAL AMOUNT	10,000,000	

3. For the purposes of this table:

(a) the term “Workshops and Training” means: (i) training materials and rental of training facilities; and (ii) reasonable fees, travel, and per diem of trainers, training institutions and trainees;

(b) the term “Operating Costs for FLEM” means recurrent costs associated with the implementation of the Project by the Recipient , including: (i) operation and maintenance of vehicle, repairs, fuel and spare parts; (ii) equipment and computer maintenance; (iii) shipment costs (whenever these costs are not included in the cost of goods); (iv) office supplies and equipment; (v) rent for office facilities; (vi) utilities; (vii) travel and per diem costs for technical staff carrying out training, supervisory and quality control activities; (viii) all costs associated with audits; and (ix) salaries of the Recipient's staff employed for purposes of working in Project coordination and management activities; and

(c) the term “Operating Costs for MTs” means recurrent costs for the operation and maintenance of vehicle, repairs, fuel and spare parts associated with the implementation of the Project by the Project States.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$500,000 equivalent may be made for payments made during the twelve months immediately before this date but on or after April 20, 2007, for Eligible Expenditures under Categories (1) and (3); and
 - (b) under Category (2) unless the first two Demonstration Subprojects (one for each Project State) presented under Component 2 of the Project for the Bank's review and prior approval have been found satisfactory by the Bank.
2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is October 31, 2012.

Section V. Other Undertakings

The Recipient, shall no later than three months after the Effective Date, hire the independent auditors as referred to in Sections I.A.6 and II.B.3 above, under terms of reference and with qualifications and experience satisfactory to the Bank and, except in the case of Project States' Auditors, in accordance with the provisions of Section III above.

APPENDIX

Modifications to the Standard Conditions - Definitions

Section I. Modification to the Standard Conditions

The Standard Conditions are modified as follows:

1. The provisions of Section 4.03 (a) of the Standard Conditions are modified by replacing the word “thirty” by the word “ninety”.
2. The reference to “Member Country” in the Standard Conditions and in this Agreement means the Federative Republic of Brazil.

Section II. Definitions

1. “Annual Operational Plan” means each plan referred to in Section I.A.3 of Schedule 2 to this Agreement.
2. “Caatinga Biome” means a semi-arid biome in the northeastern region of the Member Country which covers an area equivalent to 800,000 square kilometers.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Recipients” published by the Bank in May 2004.
5. “Demonstration Subproject” means an eligible subproject selected by the Project States and endorsed by FLEM in accordance with relevant provisions of the Operational Manual and to be financed under a Sub-grant Agreement for the activities set forth in Component 2 of the Project and carried out by a Grantee within the territory of the Project States.
6. “Effective Date” means the date so-referred to in Section 5.03 of this Agreement.
7. “Grantee” means any entity from civil society, the private or the public sector, all with legal personality, located within the territory of the Project States whose Demonstration Subproject has been found eligible in accordance with the criteria set forth in the Operational Manual, has applied for financing and has received or is to receive a Sub-grant under a Sub-grant Agreement to be executed by the Recipient under the supervision of the Project States under Component 2 of the Project.

8. “IEM” means integrated ecosystem management approach for the Caatinga Biome
9. “IPDP” means Indigenous Peoples Development Plan, a plan satisfactory to the Bank, prepared when applicable in accordance with the Policy Frameworks for Indigenous Peoples and *Quilombolas*, for the purposes of mitigating any adverse impact on indigenous peoples and *Quilombolas* communities as a result of a Demonstration Subproject and ensuring that they benefit from such Demonstration Subproject.
10. “Member Country” has the meaning set forth in Section I.2 of this Appendix.
11. “MTs” means management teams, within the administrative structure of the Project States, as established and operating: (i) for the State of Ceará, under Decree No. 28.668, dated March 16, 2007 and published in the *Diário Oficial do Estado do Ceará* on March 21, 2007; and (ii) for the State of Bahia, under a Decree to be adopted by the State of Bahia; both management teams in charge of the day-to-day coordination and implementation of the Project in close coordination with the Recipient.
12. “Negative List” means a list of activities to be annexed to the Operational Manual and which cannot benefit from a Sub-grant under the Project.
13. “Operational Manual” means the operational manual for the Project, satisfactory to the Bank to be adopted by the Recipient as an annex to the Technical Cooperation Agreement, which shall contain, *inter alia*: (i) the functions and responsibilities for the personnel of SUDES in charge of daily Project coordination and monitoring as well as for the personnel of the MTs; (ii) the procedures for procurement of works, goods and services for the Project and for the Demonstration Subprojects, as well as for financial management and audits (i.e. financial audit and procurement audit) of the Project and of Demonstration Subprojects; (iii) the indicators to be used in the monitoring and evaluation of the Project and of the Demonstration Subprojects; (iv) flow and disbursement arrangements of Project funds; (v) the eligibility criteria for the Demonstration Subprojects, their selection and approval processes, the Negative List, as well as model forms for the Demonstration Subproject application and the Sub-grant Agreements; (vi) the staffing plan for the SUDES and the MTs; (vii) the annual operational plan; and (viii) the Strategic Environmental Assessment, the Process Frameworks, the Policy Frameworks for Indigenous Peoples and *Quilombolas* and the Procurement Plan.
14. “Policy Frameworks for Indigenous Peoples and *Quilombolas*” means the documents dated February 22, 2007, for each Project State, published and available to the public on the websites www.car.ba.gov.br (for Bahia) and www.soma.ce.gov.br/meioambiente/default.html (for Ceará), both containing the

principles and policies that shall apply to the preparation and carrying out of any IPDP that may be required under the Project including any Demonstration Subproject.

15. “Process Frameworks” means the documents dated February 22, 2007, published and available to the public on the websites www.car.ba.gov.br (for Bahia) and www.soma.ce.gov.br/meioambiente/default.html (for Ceará) , both containing the principles and policies that shall apply to the preparation and carrying out of any resettlement measure that may be required under the Project including any Demonstration Subproject.
16. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
17. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 3, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
18. “Project States” means collectively the Member Country’s States of Bahia and of Ceará.
19. “Project States’ Auditors” means any or both the State auditor courts as accredited by the World Bank for the Member Country’s States of Bahia (*Tribunal de Contas do Estado da Bahia*) and of Ceará (*Tribunal de Contas do Estado do Ceará*).
20. “*Quilombolas*” mean historical Afro-Brazilian communities in rural areas.
21. “Recipient’s Articles of Agreement” means the articles of agreement of the Recipient as approved by the *Ministério Público da Bahia* and registered on January 13, 2004 in the *Segundo Registro de Pessoas Jurídicas*, the Member Country’s second registry of legal entities.
22. “RPPN” means private natural heritage reserve (*reserva particular do patrimônio natural*), a private property encumbered in perpetuity with the objective of preserving biological diversity as defined in the Member Country’s Law No. 9985 dated July 18, 2000.
23. “SP1 Tracking Tool” means “Tracking Tool for GEF Biodiversity Focal Area Strategic Priority One”, a tracking tool developed by the GEF as published on the following website: http://www.thegef.org/Projects/focal_areas/bio/bio_tracking_tools.html

24. “State Committee for the Caatinga Biosphere Reserve” means for each Project State, an official entity in charge of the Caatinga biosphere reserve, i.e., for Bahia, “*Comitê Estadual da Reserva da Biosfera da Caatinga*” created and operating under *Portaria* No. SFC/SEMARH 02/2005 dated December 12, 2005 and for Ceará, “*Comitê Estadual da Reserva da Biosfera da Caatinga*” created and operating under Decree No. 27.434 dated April 28, 2004.
25. “Strategic Environmental Assessment” means the document dated February 22, 2007, published and available to the public on the websites www.car.ba.gov.br (for Bahia) and www.soma.ce.gov.br/meioambiente/default.html (for Ceará), which contains the environmental protection measures in respect of the Project and of the Demonstration Subprojects, including identification of existing environmental conditions and potential direct and indirect environmental impacts from the carrying out of said Demonstration Subprojects, recommendation of mitigation measures for each negative impact identified, as well as measures for enhancing each identified positive impact.
26. “Sub-grant” means a grant extended or proposed to be extended by the Recipient under a Sub-grant Agreement for the financing of an eligible a Demonstration Subproject to a Grantee to cover part of the capital cost of a Demonstration Subproject;
27. “Sub-grant Agreement” means each agreement entered into between the Recipient and a Grantee as referred to in Section I.C of Schedule 2 to this Agreement for the financing and implementation of a Demonstration Subproject under Component 2 of the Project.
28. “SUDES” means *Superintendência de Inovações em Gestão e Desenvolvimento Sustentável*, a unit within the administrative structure of the Recipient, as established and operating under the Recipient’s bylaws approved through its Resolution No. 004, dated July 8, 2004 and which is in charge of the day-to-day disbursement, financial and procurement coordination of the Project as well as reporting activities for the Project.
29. “Technical Cooperation Agreement” (*Convênio de Cooperação Técnica*) means the agreement referred to in Section I. B of Schedule 2 to this Agreement and executed between the Recipient on one hand and each of Project States, on the other hand, for the implementation of their respective Components of the Project.