

CONFORMED COPY

LOAN NUMBER 7331-BR

Loan Agreement

(Environmental Sustainability Agenda Technical Assistance Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 28, 2005

LOAN NUMBER 7331-BR

LOAN AGREEMENT

AGREEMENT, dated December 28, 2005, between the FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter, dated July 7, 2004 (the Development Policy Letter), from the Borrower describing a program of actions, objectives, and policies designed to strengthen the Borrower's system of environmental sustainability management (the Program) and declaring the Borrower's commitment to the execution of the Program in accordance with such policy;

(B) the Borrower has contracted from the Bank a loan in an amount of five hundred two million five hundred twenty thousand Dollars (\$502,520,000) (the Programmatic Reform Loan for Environmental Sustainability-EnvPRL) in support of the Program during the execution thereof;

(C) the Borrower intends to receive from Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) technical assistance to assist in the implementation of Parts A and F of the Project, on the terms and conditions set forth in an agreement to be entered into between the Borrower and GTZ; and

(D) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the loan provided for in Article II of this Agreement (the Loan) upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended

through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

- (a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

- (b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) “ANA” means *Agência Nacional de Águas*, the Borrower’s National Water Agency, established pursuant to Law No. 9984 of July 18, 2000;

- (b) “*Cerrado* Biome” means a major ecological community located within the Borrower’s savanna region;

- (c) “DPRF” means *Departamento de Polícia Rodoviária Federal*, the Borrower’s Department of Federal Highway Police;

- (d) “Eligible Categories” means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;

- (e) “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 Loan allocated from time to time to the eligible Categories in accordance with the provisions of Part B of Schedule 1 to this Agreement;

(f) “EPE” means *Empresa de Pesquisa Energética*, Energy Research Company;

(g) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(h) “IBAMA” means *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*, the Brazilian Institute for Environment and Renewable Natural Resources;

(i) “Management Committee” means the committee referred to in Section 3.05 (a) of this Agreement;

(j) “MDA” means *Ministério do Desenvolvimento Agrário*, the Borrower’s Ministry of Agrarian Development;

(k) “MF” means *Ministério da Fazenda*, the Borrower’s Ministry of Finance;

(l) “MMA” means *Ministério do Meio Ambiente*, the Borrower’s Ministry of the Environment;

(m) “MME” means *Ministério do Minas e Energia*, the Borrower’s Ministry of Mining and Energy;

(n) “MP” means *Ministério do Planejamento, Orçamento e Gestão*, the Borrower’s Ministry of Planning, Budget and Management;

(o) “MTE” means *Ministério do Trabalho e Emprego*, the Borrower’s Ministry of Labor and Employment;

(p) “MTur” means *Ministério do Turismo*, the Borrower’s Ministry of Tourism;

(q) “NEMS” means National Environmental Management System, the system that was designed in the Borrower’s Law No. 6938 of August 31, 1981 and which contains the Borrower’s National Environmental Policy;

(r) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(s) “Participating Ministries” means the Borrower’s MMA, Ministry of Cities, MDA, MF, Ministry of National Integration, MME, MTur, and MP;

(t) “PAS” means *Plano Amazônia Sustentável*, the Sustainable Amazon Plan being developed by a working group composed of several of the Borrower’s Ministries led by the Ministry of National Integration;

(u) “PCU” means Project Coordination Unit, the unit referred to in Section 3.04 of this Agreement;

(v) “Performance Indicators” means the set of indicators contained in the Operational Manual to be used for purposes of monitoring the progress of the Project;

(w) “Procurement Plan” means the Borrower’s procurement plan, dated June 28, 2005, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(x) “PRODES” means *Programa de Despoluição de Bacias Hidrográficas*, the Borrower’s Water Basins Restoration Program developed and implemented by ANA;

(y) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.4 of Schedule 1 to this Agreement;

(z) “SECEX” means *Secretaria Executiva*, the Executive Secretariat of the Borrower’s Ministry of the Environment;

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

(bb) “Technical Committee” means the committee referred to in Section 3.05(b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to seven million nine hundred forty thousand Dollars (\$7,940,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan, as well as in respect of the fee referred to in Section 2.04 of this Agreement, and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

Section 2.03. The Closing Date shall be April 30, 2009 or such later date as the Bank shall establish, after having received a request from the Borrower, through its Minister of Finance, to extend the Closing Date. The Bank shall promptly notify the Borrower of such later date, which shall not be a date beyond the date requested by the Borrower.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to, but not including, the fourth anniversary of such date; and (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on January 15 and July 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

Section 2.11. The Minister of the Environment and any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of Part C of the Project.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through MMA with due diligence and efficiency and in conformity with appropriate administrative, environmental, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03 Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project in accordance with the provisions of an operational manual, satisfactory to the Bank, said manual to include, *inter alia*: (a) the organizational structure of the Project; (b) the Project procurement and financial management requirements and procedures; (c) the indicators to be used for Project monitoring and evaluation; and (d) the criteria for the selection of the civil society representative for the Management Committee and the Technical Committee. The Operational Manual may be amended from time to time with the Bank's prior approval. In case of any inconsistency between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.04. For the purposes of assisting MMA in the overall management of the Project, the Borrower shall maintain throughout the execution of the Project, within SECEX, a unit (the PCU) with functions and responsibilities acceptable to the Bank and staffed with a coordinator, technical experts and other personnel in number and with qualifications and experience acceptable to the Bank, which shall include but not be

limited to, a coordinator, a deputy coordinator, a financial administration manager, a procurement manager and a technical manager.

Section 3.05 The Borrower, through the MMA, shall:

(a) establish and maintain, until completion of the Project, a management committee composed of: (i) the executive secretaries (or their corresponding substitutes) of the Participating Ministries; and (ii) a representative from civil society selected based on the criteria set forth in the Operational Manual. The Management Committee shall be headed by the executive secretary of the MMA and will be responsible for general and macro-policy decisions related to the EnvPRL and the Project; and

(b) establish and maintain, until completion of the Project, a technical committee composed of: (i) a representative from each Participating Ministry; (ii) a representative from each of the secretariats and agencies affiliated with the MMA (including, but not limited to, ANA and IBAMA); and (iii) a civil society representative selected based on the criteria set forth in the Operational Manual. The Technical Committee shall be responsible for providing specialized technical support to the Management Committee and the PCU.

Section 3.06. The Borrower, through MMA, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than six months after the Effective Date and biannually thereafter during the period of Project implementation, a report integrating the results of the evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

(c) (i) review with the Bank, within no more than two months after each such report's preparation, the reports referred to in paragraph (b) of this Section; and

(ii) thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of said report and the Bank's views on the matter.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall, through MMA:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall, through MMA:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and

- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.06 of this Agreement, the Borrower, through MMA, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:

- (a) the Operational Manual has been approved by the Bank and adopted by the Borrower;
- (b) the PCU has been fully staffed in accordance with the provisions of Section 3.04 of this Agreement; and

(c) the Management Committee and the Technical Committee have been created and are fully operational.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion to be furnished to the Bank, namely, that the Loan has been validly registered with the Central Bank of Brazil.

Section 5.03. The date March 28, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministério da Fazenda
Procuradoria Geral da Fazenda Nacional
Esplanada dos Ministérios, Bloco "P" - 8º andar
70048-900 Brasília, D.F.
Brazil

Facsimile: (011-55-61) 3412-1740

With copy to:

Ministério do Meio Ambiente
Secretário Executivo
Esplanada dos Ministérios, Bloco "B" – 6º andar
70068-900 Brasília, DF
Brazil

Facsimile: (011-55-61) 4009-1205

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

Facsimile: (011-55-61) 3225-4022)

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Maurício Cardoso Oliva
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gregor Wolf
Acting Director
Latin American and the Caribbean Region

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' Services	4,815,000	100%
(2) Training	2,065,000	100%
(3) Goods and non-consulting services	100,000	100%
(4) Premia for Interest Rate Caps and Collars	-0-	Amount due under Section 2.09 (c) of this Agreement
(5) Front-end fee	19,850	Amount due pursuant to Section 2.04 of this Agreement
(6) Unallocated	940,150	
TOTAL	<u><u>7,940,000</u></u>	

2. For the purposes of this Schedule the term "Training" means reasonable expenditures (other than those for consultants' services) for: (a) training materials and rental of training facilities and equipment; (b) tuition fees, travel and per-diem of trainers and trainees; (c) travel, per diem cost for staff carrying out public consultations, as well as those costs associated with the dissemination of the materials developed after such consultation have taken place; and (d) any other expenses related to training (including study tours and workshops) to be carried out under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding \$800,000 may be made on account of payments made for expenditures before that date but after January 1, 2005, but not earlier than twelve months prior to the date of this Agreement.

4. Except as the Bank shall otherwise agree, withdrawals from the Loan Account shall be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank (Report-based Disbursements).

B. Special Account

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

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

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

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

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

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

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

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

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

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

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$800,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

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

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

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

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the

Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of:

(a) the amount so requested; and

(b) the amount which the Bank has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to provide technical assistance in the form of studies, training, workshops and seminars to facilitate the implementation of proposed policy reforms in the EnvPRL.

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

Part A: Strengthening of the NEMS

1. Provision of technical assistance to define the roles and responsibilities of agencies and bodies within the NEMS at the federal, state and local government levels, including, environmental licensing and authorization.
2. Provision of capacity building training to staff in MMA and IBAMA to improve their professional qualifications and integrate them into the NEMS.
3. Carrying out of studies to develop environmental indicators to be used by national statistics in furnishing quality data on the environment.

Part B: Improvement of the Green Agenda (Biodiversity Conservation and Sustainable Use)

Support for the development and enhancement of current conservation and sustainable management programs in the Borrower's biomes, through: (a) the preparation of a proposal of regulations for the draft Atlantic forest law and the preparation of an Atlantic rain forest program; (b) the carrying out of studies to evaluate the legal framework for land use, conservation and economic activities regarding the *Cerrado* Biome and proposing a draft *Cerrado* bill of law; (c) the carrying out of studies for the reformulation of the charging and collection mechanisms of the forest replacement fee; and (d) the development of a social communication strategy to promote debates around the draft public forest management bill of law.

Part C: Improvement of the Brown Agenda (Management of Environmental Risk due to Hazardous Substances)

Support for the national policy on efficient management of risks associated with hazardous chemicals and on reducing the risk of contaminants affecting human health and the environment, through: (a) the preparation of a strategic implementation plan for the national registry of contaminant emissions and transfers, as well as a definition of a methodology to respond to accidents involving hazardous chemicals; (b) the preparation of an emergency action plan to respond to accidents involving hazardous chemicals; and (c) the development of a methodology for the identification of pollution sources and risk areas with special emphasis on contaminated areas.

Part D: Improvement of the Blue Agenda (Water Resources Management)

Support for the preparation of a water resources national plan and the development of general guidelines for the implementation of a water rights licensing and charging process for the use of water, so as to ensure a balanced use of water and to achieve decentralized and participatory management of water resources.

Part E: Mainstreaming Environmental Sustainability in Select Government Sectors

1. Support for the Borrower's efforts in controlling the deforestation in the Amazon region, through: (a) the delimitation of the environmental economic zoning of the area around federal highway BR-163; (b) the preparation of an environmental management action plan in collaboration with the various agencies involved in the fight against deforestation; and (c) the provision of capacity building training to local agents and IBAMA, MTE, MDA and DPRF personnel.
2. Support for the preparation of the PAS through the provision of technical assistance and the carrying out of surveys and public consultations.
3. Support for the increased access to basic sanitation services by: (a) the development of a social communication strategy to promote debates around the draft solid waste bill; (b) the development of a water quality certification methodology using the PRODES example; and (c) the development of a methodology for preparing municipal master plans;
4. Support for the integration of environmental economic zoning within regional development planning, through: (a) the design of mechanisms for the integration of the environmental economic zoning with regional planning projects; and (b) the carrying out of studies aimed at the revitalization of the *São Francisco* river basin.
5. Support for the inclusion of environmental sustainability criteria in financial instruments and in fiscal laws and regulations through the provision of technical assistance and specialized training.

6. Support for the improvement of environmental sustainability in the energy sector, through: (a) the development of a strategic environmental assessment for the hydropower sector; (b) the carrying out of a feasibility study on the refurbishing of old hydroelectric plants; (c) the designing of a strategic plan for the conservation and rational use of energy; (d) the development of procedures of environmental control of renewable resources; and (e) the carrying out of capacity building training for staff from EPE and MME.

7. Support for the improvement of environmental sustainability in agrarian reform, through the development of simplified procedures for the environmental licensing of settlements, including the development of an environmental monitoring system for said settlements.

8. Support for the improvement of environmental sustainability in the tourism sector through the preparation of a joint integrated action plan between MMA and MTur, and the development of a proposal of monitoring and evaluation indicators for the national tourism plan posted on the website of MTur and dated April 29, 2003.

Part F: Project Management

1. Support for the establishment and operation of the PCU by providing technical advisory services to its staff, management and technical committees in the areas of project management, supervision and auditing.

2. Support for the effective design and implementation of EnvPRL and the Project's communication plan and monitoring and evaluation system.

* * *

The Project is expected to be completed by October 30, 2008.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
On each January 15 and July 15	
Beginning January 15, 2011 through January 15, 2022	4.17%
On July 15, 2022	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost less than \$250,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.