

**CONFORMED COPY**

**LOAN NUMBER 4660-BR**

# **Loan Agreement**

**(Natural Resources Management and Rural Poverty Reduction Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**STATE OF SANTA CATARINA**

**Dated May 10, 2002**

**LOAN NUMBER 4660-BR**

**LOAN AGREEMENT**

AGREEMENT, dated May 10, 2002 between the INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT (the Bank) and the STATE OF SANTA CATARINA (the Borrower).

WHEREAS (A) the Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(B) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the payment obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan); and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower 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 Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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:

(a) “Approved POA” means each annual operating plan referred to in Section 3.04 (b) of this Agreement;

(b) “Beneficiary” means: (i) a farmer; (ii) a rural laborer; (iii) a Community Association or cooperative composed of farmers and/or rural laborers; (iv) an Indigenous Peoples Community (all of which (i) through (iv) reside in a Microcatchment); or (v) a Microcatchment Association (all of which (i) through (v) meet the criteria set forth in the Operational Manual as beneficiaries of Rural Subprojects under Part B. 1. of the Project);

(c) “Community Association” means a civil association formed by members of a community (*associação civil*) duly established in the Borrower’s territory in accordance with the Guarantor’s laws;

(d) “Development Plan” means collectively the Farmer Plans, the Indigenous

Peoples' Plan and the Microcatchment Plan;

(e) "EPAGRI" means *Empresa de Pesquisa Agropecuária e Extensão Rural de Santa Catarina S.A.*, the Borrower's Agricultural Research and Rural Extension Corporation;

(f) "EPAGRI Agreement" means the agreement referred to in Section 3.01 (b) (i) of this Agreement;

(g) "Executing Agencies" means collectively EPAGRI, FATMA and ICEPA;

(h) "Farmer Plan" means the plan for the sustainable development of a farmer's farm, for implementation together with a Rural Subproject;

(i) "FATMA" means *Fundação do Meio Ambiente*, the Borrower's Environmental Management Foundation established pursuant to the Borrower's Decree No. 662, of July 30, 1975;

(j) "FATMA Agreement" means the agreement referred to in Section 3.01 (b) (ii) of this Agreement;

(k) "Financial Monitoring Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(l) "FUNAI" means *Fundação Nacional do Índio*, the Guarantor's Indian Foundation established pursuant to the Guarantor's Law No. 5371, of December 5, 1967;

(m) "FUNAI Cooperation Agreement" means the agreement referred to in Section 3.01 (e) of this Agreement;

(n) "Grant Agreement" means any of the agreements to be entered into between the Borrower and a Beneficiary providing for a Rural Subproject Grant;

(o) "ICEPA" means *Instituto de Planejamento e Economia Agrícola de Santa Catarina*, the Borrower's Agricultural Planning Institute;

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

(q) "Indigenous Peoples" means the Kaingang, Xokleng, and Guarani peoples residing in the Municipalities;

(r) "Indigenous Peoples Community" means a community formed by Indigenous

Peoples duly established in the Borrower's territory in accordance with the Guarantor's laws;

(s) "Indigenous Peoples Plan" means the plan for the sustainable development of an Indigenous Peoples Community, for implementation together with a Rural Subproject;

(t) "Microcatchment" means *microbacia hidrográfica*, a watershed or area, with a population of about 120 families, bound peripherally by a water parting, and draining ultimately in a particular watercourse which meets environmental and social criteria set forth in the Operational Manual;

(u) "Microcatchment Association" means an association formed by farmers, rural workers, Community Associations, and/or Indigenous Peoples Communities duly established in the Borrower's territory in accordance with the Guarantor's laws for the purpose of planning, preparing (in agreement with its members), and implementing, one or more Rural Subprojects, which Microcatchment Association meets the criteria set forth in the Operational Manual for participating in the Project;

(v) "Microcatchment Plan" means the plan for the management of a Microcatchment, for implementation together with a Rural Subproject;

(w) "MIS" means the Project monitoring and information system, satisfactory to the Bank, to provide physical, financial and accounting information on the Project implementation, including, *inter alia*, information on the Performance Indicators;

(x) "Model Forms" means the model grant agreements set forth in the Operational Manual;

(y) "Municipal Council" means a municipal council referred to in Section 3.01 (c) (ii) of this Agreement;

(z) "Municipality" means any municipality which meets the socioeconomic and environmental eligibility criteria set forth in the Operational Manual;

(aa) "Municipality Agreement" means any of the agreements referred to in Section 3.01 (c) (iii) of this Agreement;

(bb) "Operational Manual" means the manual for the operation of the Project referred to in Section 3.05 of this Agreement as the same may be amended from time to time by agreement between the Bank and the Borrower;

(cc) "Performance Indicators" means the set of performance indicators, to be used for purposes of monitoring the progress of the Project, set forth in a letter from the Borrower to the Bank, dated March 26, 2002, as such indicators may be revised with the agreement of the Bank;

(dd) “PMU” means the unit established within SDA, pursuant to the Borrower’s Decree No. 3954, of January 30, 2002, for the purposes of coordinating the carrying out of the Project;

(ee) “PMU Institutional Strengthening Action Plan” means the plan for the strengthening of PMU’s financial management and procurement capacity, set forth in a letter from the Borrower to the Bank, dated March 26, 2002;

(ff) “Rural Subproject” means a subproject consisting of one or more of the activities specified in Part B.1 of the Project, which subproject is selected, approved and implemented in accordance with the requirements of the Operational Manual;

(gg) “Rural Subproject Grant” means a grant made or proposed to be made by the Borrower out of the proceeds of the Loan to a Beneficiary for the financing of a Rural Subproject pursuant to the terms of the Operational Manual;

(hh) “SDA” means *Secretaria de Estado do Desenvolvimento Rural e da Agricultura*, the Borrower’s Rural Development and Agriculture Secretariat;

(ii) “SDM” means *Secretaria de Estado do Desenvolvimento Urbano e Meio Ambiente*, the Borrower’s Secretariat for Urban Development and the Environment;

(jj) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(kk) “State and Regional Councils” means the councils established by the Borrower pursuant to Resolution No. 001/2002/SDA/CDRURAL, of February 18, 2002.

## **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 the Loan Agreement, an amount equal to sixty-two million eight hundred thousand dollars (\$62,800,000).

Section 2.02. (a) 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, works 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.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank,

including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2008 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. 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 at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ( $3/4$  of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it

that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower and the Guarantor of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower and the Guarantor of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower or the Guarantor notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on April 15 and October 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.

### **ARTICLE III**

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

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through SDA, with the assistance of:

- (i) EPAGRI in respect of Parts A. 1 through A. 3 of the Project, and partially in respect of Part A. 4 of the Project;
- (ii) SDM in respect of Part C.1 of the Project;
- (iii) the Municipalities in respect of Parts A.1 through A.3 and C of the Project;
- (iv) FATMA in respect of Part C.2 of the Project; and
- (v) ICEPA in respect of Parts D.1 and D.2 of the Project,

all with due diligence and efficiency and in conformity with appropriate social, administrative, agricultural, environmental, financial and engineering practices, and in accordance with the

Operational Manual and the Approved POAs, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

- (b) The Borrower shall enter into an agreement with:
  - (i) EPAGRI in respect of Parts A.1 through A.3 of the Project, and partially in respect of Part A. 4 of the Project;
  - (ii) FATMA in respect of Part C.2 of the Project; and
  - (iii) ICEPA in respect of Parts D.1 and D.2 of the Project,

all under terms satisfactory to the Bank to set forth, *inter alia*, the respective responsibilities of the Executing Agencies in the implementation of their respective Parts of the Project; and

- (c) For the purposes of carrying out the Project, the Borrower shall:
  - (i) maintain during Project implementation:
    - (A) the PMU with responsibilities, structure and functions satisfactory to the Bank; and
    - (B) State and Regional Councils with responsibilities and functions satisfactory to the Bank;
  - (ii) cause the Municipalities, under the terms of the Municipality Agreements to establish and thereafter maintain during Project implementation, municipal councils with responsibilities and functions satisfactory to the Bank; and
  - (iii) enter into an agreement with each Municipality under terms and conditions satisfactory to the Bank, to set forth, *inter alia*, the Municipality's obligation to operate the councils referred to in (ii) above, to assist in the promotion and dissemination of the Project, and to participate in the activities referred to in Parts A.1 through A.4, C and D.2 and D.3 of the Project within its jurisdictions.

(d) The Borrower shall, through SDA, enter into a Grant Agreement, with each Beneficiary substantially in accordance with the terms of the Model Forms.

(e) The Borrower shall, not later than one year after the Effective Date, enter into an agreement with FUNAI, under terms and conditions satisfactory to the Bank, to set forth, *inter alia*, FUNAI's undertaking to, as and when needed, facilitate and expedite the issuance of



juridical status to Indigenous Peoples not yet established as Indigenous Peoples Communities.

(f) The Borrower shall exercise its rights and comply with its obligations under the EPAGRI Agreement, the FATMA Agreement, the ICEPA Agreement, each of the Municipality Agreements and the Grant Agreements, and the FUNAI Cooperation Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the EPAGRI Agreement, the FATMA Agreement, the ICEPA Agreement, any of the Municipality Agreements or the Grant Agreements or the FUNAI Cooperation Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower 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 objectives 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 every year thereafter during the period of Project implementation, reports 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 reports and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank shortly after such reports' preparation, the reports referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and taking into account the Bank's views on the matter.

Section 3.04. The Borrower shall:

(a) by September 30 of each year during Project implementation, prepare and furnish to the Bank the proposed annual operating plan and budget, satisfactory to the Bank, detailing the Project activities proposed to be carried out during the next succeeding year and the respective sources of funding therefor; and

(b) not later than 30 days after the enactment of the Borrower's budgetary law, furnish to the Bank the portion of the budget allocated to the Project for each year in question, and the resulting respective annual operating plan referred to in paragraph (a) of this Section, for

such year (Approved POA).

Section 3.05. The Borrower shall carry out the Project in accordance with a manual, satisfactory to the Bank, said manual to include, *inter alia*:

(a) the organizational structure of the Project and the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement and financial requirements thereof);

(b) criteria for selection of Municipalities, Microcatchments, and Beneficiaries;

(c) requirements for the selection, approval and implementation of Rural Subprojects, including:

(i) the environmental screening, evaluation, approval and monitoring procedures; and

(ii) the definition of responsibility for the preparation of environmental assessments of Subprojects, and respective institutional arrangements;

(d) (i) the strategy to address the concerns of Indigenous Peoples, to ensure their participation and involvement in Project implementation, and to ensure their access to the various Project activities; and

(ii) the requirement for preparation and implementation of an Indigenous Peoples Plan with respect of each Rural Subproject to benefit an Indigenous Peoples Community; and

(e) the model draft agreement to set forth the Beneficiary's obligation to, *inter alia*, contribute to the financing of the Rural Subproject, and carry out the Development Plan and Rural Subproject.

In the case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

Section 3.06. The Borrower shall, not later than one year after the Effective Date, furnish to the Bank for its comments the results of the research activities referred to in Part A. 5 of the Project.

Section 3.07. The Borrower shall carry out the PMU Institutional Strengthening Plan in accordance with its terms.

Section 3.08. For the purposes of Section 9.07 of the General Conditions, the Borrower

shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

## **ARTICLE IV**

### **Financial Covenants**

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall 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 statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for 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;

- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.03 of this Agreement, the Borrower 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 Financial Monitoring Report 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 Financial Monitoring Report 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 Borrower has adopted the Operational Manual; and

(b) the EPAGRI Agreement, the FATMA Agreement, and the ICEPA Agreement have been executed on behalf of the respective parties thereto.

Section 5.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Loan has been duly registered by the Guarantor's Central Bank; and

(b) that the EPAGRI Agreement, the FATMA Agreement, and the ICEPA Agreement have been duly authorized or ratified by EPAGRI, FATMA, and ICEPA, respectively, and are legally binding upon such agencies in accordance with their respective terms.

Section 5.03. The date August 8, 2002 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 Governor 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 Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

(202) 477-6391

For the Borrower:

Governo do Estado de Santa Catarina

Rua José da Costa Moellmann, 193  
88020-170 Florianópolis, Santa Catarina  
Brazil

Facsimile: (011-55-48) 221-3167

With copies 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: (011-55-61)225 4022

Secretaria de Estado do Desenvolvimento  
Rural e da Agricultura  
Rodovia Admar Gonzaga, 1486  
Itacorubi, C.P. 436  
88034-001 Florianópolis, Santa Catarina  
Brazil

Facsimile: (011-55-48) 239-4093 or 239-4001

Secretaria de Estado da Fazenda  
Rua Tenente Silveira, 60  
88010-300 Florianópolis, Santa Catarina  
Brazil

Facsimile: (011-55-48) 216-7536

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinod Thomas

Acting Regional Vice President  
Latin America and the Caribbean

STATE OF SANTA CATARINA

By /s/ Esperidião Amin Helou Filho

Authorized Representative

## SCHEDULE 1

### Withdrawal of the Proceeds of the Loan

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) Works (other than under Rural Subproject Grants)	160,000	73%
(2) Goods (other than under Rural Subproject Grants)	2,700,000	65%
(3) Rural Subproject Grants	46,900,000	75% of the expenditures for goods, works, services and operating costs for a Rural Subproject financed by a Rural Subproject Grant
(4) (a) Consultants' services and training for Parts A, C and D of the Project	10,400,000 ) ) ) )	56%
(b) Audits	100,000)	
(5) Fee	628,000	Amount due under Section 2.04 of this Agreement
(6) Unallocated	<u>1,912,000</u>	
TOTAL	<u>62,800,000</u>	



2. For the purposes of this Schedule:

(a) the term “Training” means expenditures incurred in connection with the provision of training (including workshops and seminars) under the Project, including rental of equipment and facilities and reasonable travel cost and per-diem of the trainees; and

(b) “Operating Costs” means the initial working capital costs of a Rural Subproject eligible for financing in accordance with the Operational Manual.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the amount of \$3,000,000, may be made on account of payments made within twelve months prior to the date of this Agreement, but in no case prior to January 18, 2002; and

(b) payments under a Rural Subproject Grant unless the respective Grant Agreement shall have been entered into between the parties thereto.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, all under such terms and conditions as the Bank shall specify by notice to the Borrower:

(a) under contracts for goods costing less than the equivalent of \$350,000 per contract and for works costing less than the equivalent of \$100,000 per contract;

(b) for services of individual consultants under contracts under \$50,000 equivalent per contract;

(c) for services of consulting firms under contracts under \$100,000 equivalent per contract;

(d) under Rural Subproject Grants; and

(e) for training.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are: (a) to integrate environmental and social sustainability into development and poverty reduction strategies of the Borrower; (b) to enhance local governance and community participation in decision-making; (c) to reverse land degradation and

better ensure protection of the Borrower's natural resources; and (d) to improve the income-generating opportunities and living conditions for the rural poor.

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 objectives:

Part A: Institutional Development and Organization

1. Training

(a) Training of Beneficiaries, in the principles and practice of rural diagnosis, group formation and operation, participatory planning, and stakeholder monitoring, complemented with technical subjects including, *inter alia*:

- (i) techniques for sustainable land management;
- (ii) product diversification, processing, and/or marketing;
- (iii) sustainable improvements to social infrastructure or habitation; and
- (iv) environmental protection.

(b) Carrying out of seminars to review progress of Project implementation, and learning visits to projects, in the Guarantor's territory, with similar approaches to the Project.

(c) Preparation of revisions to the Operational Manual, and publication of a manual on good practices in road rehabilitation to guide the training of municipal road workers on road maintenance rehabilitation works carried out in the Borrower's territory.

2. Environmental Education

(a) Carrying out of environmental education activities in rural schools located in or adjacent to Microcatchments to facilitate and promote awareness, appreciation, knowledge, and stewardship of natural resources in teachers and students, including *inter alia*:

- (i) development and dissemination of classroom-ready teaching aids and materials;
- (ii) presentation of awards to schools that improve their environmental education efforts;
- (iii) organization of workshops with school staff, seminars with school

parents, and field trips and outdoor workshops for primary and high school students;

- (iv) preparation and implementation of environmental education projects in selected schools; and
- (v) school group formation to enhance the abilities of teachers and students in problem solving, leadership, decision making, and cooperation.

(b) Carrying out of environmental education activities for Community Associations, Indigenous Peoples Communities, and Microcatchment Associations, including, *inter alia*:

- (i) organization of courses and workshops for farming families, members of environmental working groups, local leaders, Indigenous Peoples and technicians;
- (ii) establishment of partnerships with governmental and nongovernmental institutions to undertake joint environmental education activities; and
- (iii) preparation of environmental education materials.

### 3. Rural Extension

Provision of extension services to, *inter alia*:

(a) facilitate the formation of Community Associations, Indigenous Peoples Communities, Microcatchment Associations and other groups and associations, to assist in the preparation of Development Plans and Rural Subprojects;

(b) collect community demands for social as well as technical and financial support arising from those plans; and

(c) assist with implementation of Development Plans at the community level.

### 4. Adaptive and Social Research

Carrying out of research activities for, *inter alia*:

(a) preparation of the microcatchment maps necessary for Microcatchment Plans;

(b) carrying out of municipal agricultural censuses;

(c) (i) review of farming and environmental issues related to the pursuit of profitable, sustainable, and environmentally acceptable activities; (ii) identification of constraints affecting the Beneficiaries, and of individual and collective income-enhancing activities that could be implemented by the Beneficiaries; and (iii) adaptive trials, demonstrations, meetings, and publications to disseminate research results among Beneficiaries; and

(d) monitoring of technology change by producers, and the resulting economic and environmental impacts.

#### 5. Technical Assistance in Support of the State Structural Reform

Provision of technical assistance to assist the Borrower in the evaluation of:

(a) its poverty reduction programs and policies, including its micro- and rural credit and social inclusion schemes; and

(b) alternatives to reform its water (including watershed management) and energy public services including, in particular, a review of the legal and institutional framework governing the Borrower's water resources sector and its management system, a review of the structure and regulatory framework for the Borrower's water supply and sanitation sector, and the design of a subsidy program aimed at increasing delivery of water supply and sewerage services to the poor.

#### Part B: Rural Investments

1. Financing of investments (Rural Subprojects) for Beneficiaries for, *inter alia*:

(a) home improvements such as piped water, sanitation or waste disposal, as well as minor structural improvements to housing;

(b) control of water pollution and soil erosion, forest conservation and reforestation, protection of water sources or schemes, and other conservation and environmental activities to increase biodiversity; and

(c) income generation, whether through improvements to production systems, value-added schemes or job creation.

#### Part C: Environmental Management

1. Preparation and implementation of management plans for the Timbó, Chapecó Upper River Valley, and Jacutinga watersheds, integrating two or more Microcatchment Plans and, including, *inter alia*, technical assistance, workshops and training for:

- (a) strengthening or creating watershed committees;
- (b) carrying out socioeconomic, environmental and stakeholder assessments;
- (c) developing detailed assessments and characterization of aquatic resources, problems, their causes and sources (including land-based activities);
- (d) establishment of water resources and environmental objectives consistent with the Guarantor's and the Borrower's legislation and reflecting the needs of watershed stakeholders;
- (e) identification of financial and regulatory mechanisms to facilitate sustainability of water resources management;
- (f) identification of indicators to monitor the implementation of watershed management plans; and
- (g) identification of specific implementation actions that will attain the plans' goals, including the setting of milestones, assignment of responsibility, and identification of existing and potential sources of funding for implementation.

## 2. Ecological Corridors and Protected Areas

- (a) Design and implementation of ecological corridors for the Timbó Watershed and Chapecó Upper River Valley Watershed, including, *inter alia*:
  - (i) studies, surveys and mapping to identify the corridors, and public consultations to raise conservation awareness and to involve local communities living inside and outside the boundaries of parks and reserves in the watershed;
  - (ii) establishment of a coordination and participatory management structure;
  - (iii) implementation of an integrated geographical information system and information dissemination campaigns;
  - (iv) training, through workshops and focus group meetings involving land owners and municipal officers, on the design of management plans for private and municipal protected areas; and
  - (v) promotion of the implementation of Rural Subprojects for sustainable management of natural resources and conservation by local communities, in particular in private nature reserves, mandatory legal

reserves, and permanent preservation areas on private lands.

(b) Carrying out of:

- (i) a dissemination campaign to raise awareness in the public at large on the Borrower's new legislation relating to economic incentives for the establishment of ecological corridors and protected areas; and
- (ii) workshops and technical assistance for preparation of the regulations for the Borrower's protected areas legislation, and for the development of an inventory of existing protected areas.

(c) Carrying out of activities for the consolidation of the Borrower's Tabuleiro State Park including *inter alia*:

- (i) improvements of the visitors' infrastructure, such as construction of interpretative trails and two thematic centers in the buffer zone, and equipping for these centers, and for fire control; and
- (ii) training of community leaders, school teachers, municipal and park staff and other local stakeholders to promote awareness, appreciation and knowledge of the Tabuleiro State Park; and
- (iii) preparation and publication of promotional materials.

Part D: Project Management, Monitoring and Evaluation

1. (a) Establishment and operation of the PMU.

(b) Carrying out of a communications program to ensure that relevant stakeholders are informed about the Project's objectives, opportunities and procedures and are able to provide feedback and participate in the process.

(c) Installation and operation of MIS.

(d) Provision of auditing services for the carrying out of the financial audits referred to in Section 4.01 of this Agreement.

2. Provision of technical assistance for monitoring, evaluation (including the carrying out of a baseline evaluation study, annual physical performance reviews, and a mid-term implementation review) and dissemination of Project results and impacts.

3. Financing of expenditures for the creation and/or operation of Microcatchment Associations, Community Associations, Indigenous Peoples Communities, Municipal Councils, and State and Regional Councils.

\* \* \*

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

### **SCHEDULE 3**

#### **Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
On each April 15 and October 15	
beginning October 15, 2007 through April 15, 2017	3,140,000

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\* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

### **SCHEDULE 4**

#### **Procurement**

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$350,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Guarantor.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Except as provided in Parts C.2, C.3 and C.4 hereof,

(a) goods estimated to cost less than \$ 350,000 equivalent per contract and not exceeding in the aggregate \$860,000 equivalent may; and

(b) works shall,

be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, using standard bidding documents acceptable to the Bank, and the following



provisions:

- (i) Contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.
- (ii) 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.
- (iii) 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.
- (iv) The invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.
- (v) 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.

## 2. National Shopping

Except as provided in Part C.4 hereof, goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,600,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

## 3. Procurement of Small Works

Except as provided in Part C.4 hereof, works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$220,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

#### 4. Community Participation

Goods and works costing \$50,000 equivalent or less per contract under Rural Subprojects, and not exceeding in the aggregate \$58,000,000, may be procured in accordance with procedures acceptable to the Bank and as set forth in the Operational Manual.

#### Part D: Review by the Bank of Procurement Decisions

##### 1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

##### 2. Prior Review

(a) With respect to: (i) each contract to be procured pursuant to the provisions of Part B.1 of this Section; and (ii) the first two contracts for goods and for works procured pursuant to the provisions of Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first three contracts to be procured in accordance with the procedures referred to in Parts C.2 and C.3 hereof, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures (including small works), the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures (including small works), the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraph 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

##### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

### Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.
2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Least-cost Selection

Services for audits, small engineering designs, and travel services may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

#### 2. Selection Based on Consultants' Qualifications

Services for training, special studies, and extension 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 and 3.7 of the Consultant Guidelines.

#### 3. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, and not exceeding in the aggregate \$1,000,000 equivalent, may, with the Bank's prior agreement except for those under Rural Subprojects, be procured in accordance with the provisions of paragraphs

3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

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

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for services estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms for services estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works 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 Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equal to \$3,200,000, or such other amount as the Bank shall establish, to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$1,600,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed \$15,000,000.

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

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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 do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) 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 paragraph 4 of this Schedule 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. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

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

(b) 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 allocated to the eligible Categories 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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 or the portion thereof not so

eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

