

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF056255

Global Environment Facility Trust Fund Grant Agreement

**(Integrated Management of Aquatic Resources
in the Amazon Region Project - AQUABIO)**

between

FEDERATIVE REPUBLIC OF BRAZIL

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated September 15, 2006

GEF TRUST FUND GRANT NUMBER TF056255

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated September 15, 2006, between the FEDERATIVE REPUBLIC OF BRAZIL (the Recipient) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994 of the Executive Directors of the Bank, which, *inter alia*, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution No. 94-2);

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2;

(D) the Project will be carried out by the Recipient, through MMA (as hereinafter defined), with the assistance of the Participating Entities (as hereinafter defined), as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the a grant (the GEF Trust Fund Grant) to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions), constitute an integral part of this Agreement:

- (i) Article I;
 - (ii) Sections 2.01 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Sections 4.01 and 4.06;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02 (c), (e), (f), (i), (l), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
 - (vii) Section 8.01 (b);
 - (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
 - (ix) Section 10.03;
 - (x) Article XI; and
 - (xi) Sections 12.01 (c), 12.02, 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), 6.02 (f) and 5.01 (a) thereof, means the Bank acting as an implementing agency of the GEF, except

that, in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;

- (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
- (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
- (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vi) 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 GEF Trust Fund Grant Agreement, the proceeds of the GEF Trust Fund Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the GEF Trust Fund Grant, 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 grants such as the GEF Trust Fund Grant. 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 GEF Trust Fund Grant 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 GEF Trust Fund Grant Agreement as required to be consistent with such policy of the Bank.”;

- (vii) a new subparagraph is added after subparagraph (o) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”;

- (viii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 are replaced with the words “corrupt, fraudulent, collusive or coercive”; and
- (ix) the first sentence of Section 10.01 of the General Conditions is deleted.

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

(a) “Amazonian States” means the Recipient’s political subdivisions of Acre, Amapá, Amazonas, Maranhão, Mato Grosso, Pará, Rondônia, Roraima and Tocantins;

(b) “Beneficiary” means a public or private entity with legal personality, including non-governmental organizations, which meets the eligibility criteria set forth in the Operational Manual (as hereinafter defined) for executing the Subprojects (as hereinafter defined);

(c) “Eligible Categories” means Categories (1) through (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) “Eligible Expenditures” means the expenditures for goods, works, services and operating costs referred to in Section 2.02 of this Agreement;

(e) “Environmental Management Plan” means the plan, dated December 12, 2005 (*Documento de Avaliação Ambiental e Plano de Gestão Ambiental*), duly adopted by the Recipient as part of the Operational Manual (as hereinafter defined), which sets out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plan, as such plan may be revised from time to time with the agreement of the Bank;

(f) “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(g) “FUNAI” means *Fundação Nacional do Índio*, the Recipient’s National Indian Foundation operating pursuant to the Recipient’s Decree No. 4645, dated March 26, 2003;

(h) “IBAMA” means *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*, the Recipient’s Institute of the Environment and Renewable Natural Resources, established pursuant to the Recipient’s Law No. 7735 of February 22, 1989;

(i) “Implementation Plan” means each of the annual plans referred to in Section 3.07 of this Agreement;

(j) “Indigenous Peoples” means the indigenous peoples recognized as such by FUNAI as eligible to benefit from the constitutional and other legal protection as indigenous peoples;

(k) “Indigenous Peoples Strategy” means the indigenous peoples strategy (*Estratégia Indígena do Projeto AquaBio*) furnished to the Bank on January 7 2006, prepared in consultations with Indigenous Peoples for the carrying out of activities under Parts A, B and C of the Project, and which is part of the Operational Manual;

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

(m) “Negro Target Area” means the portion of the Recipient’s Lower and Middle Negro River sub-basin that comprises the municipalities of Novo Airão, Barcelos, Santa Isabel do Rio Negro, and Manaus (in this case restricted to the drainages of the Tarumã-açu and Tarumã-miri rivers), in the State of Amazonas;

(n) “Operational Manual” means the manual 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 Recipient;

(o) “Participating Entities” means, collectively: FUNAI, IBAMA, SDS, SECTAM and SEMA (the latter three as hereinafter defined);

(p) “PCU” means the Project coordination unit, within MMA’s Secretariat of Biodiversity and Forests (*Secretaria de Biodiversidade e Florestas*), referred to in Section 3.04 of this Agreement;

(q) “Performance Indicators” means the set of performance indicators, to be used for purposes of monitoring the progress of the Project, set forth in the Operational Manual, as such indicators may be revised with the agreement of the Bank;

(r) “Procurement Agent” means the Recipient’s agent to be employed under the Procurement Agent Agreement;

(s) “Procurement Agent Agreement” means the agreement referred to in Section 3.03 (b) of this Agreement;

(t) “Procurement Plan” means the Recipient’s procurement plan, dated April 27, 2006 (*Plano de Aquisições e Contratações*) 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 of this Agreement, to cover succeeding 18-month periods (or longer) of Project implementation;

(u) “Report-based Disbursements” means disbursements made pursuant to the Borrower’s option for withdrawal of funds from the GEF Trust Fund Grant Account referred to in Part A.5 of Schedule 1 to this Agreement;

(v) “SDS” means *Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável do Estado do Amazonas*, the Amazonas State Secretariat of Environment and Sustainable Development;

(w) “SECTAM” means *Secretaria Executiva de Ciência, Tecnologia e Meio Ambiente do Estado do Pará*, the Pará State Secretariat of Science, Technology and Environment;

(x) “SEMA” means *Secretaria de Estado do Meio Ambiente do Estado do Mato Grosso*, the Mato Grosso State Secretariat of Environment;

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

(z) “Steering Committee” means “CONABIO” (*Comissão Nacional de Biodiversidade*), the Recipient’s National Biodiversity Commission, which will act as the steering committee for the Project and which is integrated by, *inter alia*, representatives of the Recipient’s federal government, national associations, academia, and non-governmental and public organizations;

(aa) “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;

(bb) “Subproject Grant” means a grant made or proposed to be made by the Recipient out of the proceeds of the GEF Trust Fund Grant to a Beneficiary for the financing of a Subproject pursuant to the terms of the Operational Manual;

(cc) “Subproject Grant Agreement” means any of the agreements referred to in Section 3.06 of this Agreement;

(dd) “Target Areas” means, collectively, the Negro Target Area, the Tocantins Target Area and the Xingu Target Area (the latter two, as hereinafter defined);

(ee) “Technical Cooperation Agreement” means each of the institutional arrangements (*Acordos de Cooperação Técnica*) referred to in Section 3.03 (a) of this Agreement;

(ff) “Tocantins Target Area” means the portion of the Recipient’s Lower Tocantins River sub-basin that comprises four out of the nine municipalities of Abaetetuba, Barcarena, Moju, Mocajuba, Oeiras do Pará, Limoeiro do Ajuru, Igarapé-Miri, Cametá, and Baião, in the State of Pará, to be identified after the first year of Project implementation; and

(gg) “Xingu Target Area” means the portion of the Recipient’s Upper Xingu River sub-basin that comprises the municipalities of Água Boa, Canarana, and Querência, in the State of Mato Grosso.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equivalent to seven million one hundred and eighty thousand Dollars (\$7,180,000).

Section 2.02. The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant 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, services and operating costs required for carrying out the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be August 31, 2012, or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. The Recipient declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project, through MMA, with the assistance of:

- (a) IBAMA and SECTAM (pursuant to the relevant Technical Cooperation Agreement), in the Tocantins Target Area;
- (b) IBAMA and SEMA (pursuant to the relevant Technical Cooperation Agreement), in the Xingu Target Area;
- (c) IBAMA and SDS (pursuant to the relevant Technical Cooperation Agreement), in the Negro Target Area; and
- (d) FUNAI (pursuant to the relevant Technical Cooperation Agreement), in those Target Areas where Indigenous Peoples are present;

all with due diligence and efficiency and in conformity with appropriate administrative, financial, social and environmental standards and practices, and shall provide, promptly as needed, the counterpart 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, works and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient 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. The Recipient, through MMA, shall:

(a) enter into institutional arrangements (*Acordos de Cooperação Técnica*) with each of FUNAI, IBAMA, SDS, SECTAM and SEMA, under terms and conditions satisfactory to the Bank, setting forth their respective responsibilities for the implementation of those Parts of the Project in which each of the agencies mentioned above participates;

(b) enter into an agreement, for a period not exceeding two years, with a procurement agent acceptable to the Bank, under terms and conditions satisfactory to the Bank (the Procurement Agent Agreement), whereby: (i) the Recipient will authorize the Procurement Agent to undertake, on its behalf, and the procurement Agent will so undertake, the procurement of goods, works and services under the Project (except for those pertaining to Parts B.1 and B.2 of the Project) in accordance with the procedures set forth or referred to in this Agreement; (ii) the Procurement Agent will undertake to keep separate records and accounts in respect of such goods, works and services, and to assist the Recipient in all other aspects with regard to the carrying out of the Project and in complying with the Recipient's obligations under this Agreement (*inter alia*, the Procurement Agent will undertake, with respect to all Parts of the Project except for Parts B.1 and B.2, to comply with all provisions of Article IV of this Agreement as if the Procurement Agent were the Recipient); and (iii) the Recipient may transfer directly to the Procurement Agent proceeds of the GEF Trust Fund Grant as required by the Procurement Agent to effect the payment of goods, works and services under the Project; and

(c) exercise its rights and comply with its obligations under each of the Technical Cooperation Agreements and the Procurement Agent Agreement in such manner as to protect the interests of the Recipient and the Bank and to accomplish the objective of the GEF Trust Fund Grant, and, except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce any of the Technical Cooperation Agreements, the Procurement Agent Agreement, or any provision thereof.

Section 3.04. For the purposes of carrying out the Project, the Recipient shall through MMA, maintain, until completion of the Project, the PCU with a structure and functions satisfactory to the Bank, and with staff in adequate numbers and with adequate qualifications, such unit to be headed at all times by a general coordinator and to have at least three technical coordinators, all with qualifications, experience, functions and responsibilities satisfactory to the Bank.

Section 3.05. Without limitation to the provisions of Section 3.01 of this Agreement, the Recipient shall carry out the Project in accordance with the provisions of the manual, issued by the Recipient, through MMA, on September 4, 2006 (the Operational Manual), which contains the policies and procedures for the carrying out, monitoring and evaluation of the Project, including, *inter alia*: (a) the organizational structure of the Project (including the role of the Steering Committee and the Participating Entities); (b) criteria for the selection of Beneficiaries and for the financing of Subprojects; (c) requirements for the selection, approval and implementation of Subprojects, including the environmental screening, evaluation, approval and monitoring procedures; (d) the Project procurement and financial management requirements and procedures; (e) the Environmental Management Plan; (f) the Indigenous Peoples Strategy; and (g) the indicators to be used for Project monitoring and evaluation (the Performance Indicators). In case of any inconsistency

between a provision of the Operational Manual and this Agreement, the provision of this Agreement will prevail.

Section 3.06. For the purposes of carrying out Part B.1 of the Project, the Recipient shall:

(a) enter into agreements with Beneficiaries substantially in accordance with the terms and conditions set forth in the Operational Manual, including provisions regarding financing agreements for Subprojects (the Subproject Grant Agreements); and

(b) exercise its rights and comply with its obligations under each of the Subproject Grant Agreements, in such a manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant and, except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce any of the Subproject Grant Agreements or any provision thereof.

Section 3.07. The Recipient shall:

(a) not later than October 30 of each year during Project implementation, furnish to the Bank for its approval, an annual implementation plan (the Implementation Plan), each said plan to include, *inter alia*: (i) the Project activities to be carried out by the Recipient and other Participating Entities during the calendar year following the presentation of each said plan; and (ii) the budget allocated to the Project for the year in question and the respective sources of funding therefor; and

(b) thereafter implement each said Implementation Plan, approved by the Bank, in accordance with its terms.

Section 3.08. The Recipient 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 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 objective thereof, based on the conclusions and recommendations of the said reports and taking into account the Bank's views on the matter.

Section 3.09. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient 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 Recipient on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain a financial management system within MMA, 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 Recipient, through MMA, shall:

(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 GEF Trust Fund Grant Account were Report-based Disbursements or were made on the basis of statements of expenditure the Recipient, through MMA, shall:

- (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 GEF Trust Fund Grant 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 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 Recipient's reporting obligations set out in Section 3.08 (b) of this Agreement, the Recipient, through MMA, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank (the FMR), 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 by the GEF Trust Fund Grant and other financial and in-kind contributions, 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 the period not covered by the previous FMR until the end of such calendar quarter.

ARTICLE V

Effectiveness; Termination

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

(a) each of the Technical Cooperation Agreements and the Procurement Agent Agreement have been entered into between the respective parties thereto in a manner satisfactory to the Bank; and

(b) the general coordinator and the three technical coordinators of the PCU, referred to in Section 3.04 of this Agreement, have been appointed.

Section 5.02. Without prejudice to the provisions of the General Conditions, the date specified for purposes of Section 12.04 of the General Conditions is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the GEF Trust Fund Grant which expire on December 13, 2007.

Section 5.03. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

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
Secretaria Executiva
Esplanada dos Ministérios, Bloco "B" - 6º andar
70068-900 Brasília, DF
Brazil

Facsimile: (011-55-61) 4009-1770

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

Facsimile: (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:

INTBAFRAD
Washington, D.C.

Facsimile:

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

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Suely Dib de Sousa e Silva

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as an implementing agency of the Global Environment Facility

By /s/ John Briscoe

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

A. General

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

| <u>Category</u> | <u>GEF Trust Fund Grant Allocated (Expressed in Dollars)</u> | <u>% of Expenditures to be Financed</u> |
|--|--|--|
| (1) Goods, consultants' services and training (other than for Part B of the Project) | 4,541,100 | 100% |
| (2) Subprojects | 1,274,140 | 100% of the costs of goods, works and services for the respective Subproject |
| (3) Operating costs (other than for Part B of the Project) | 1,007,760 | 100% |
| (4) Unallocated | <u>357,000</u> | |
| TOTAL | <u>7,180,000</u> | |

2. For the purposes of this Schedule:

(a) the term "training" means expenditures (other than those for consultants' services) incurred by the Recipient to finance reasonable transportation costs and per-diem of trainees and trainers (if applicable) and rental of training facilities, materials, services and equipment under the Project; and

(b) the term “operating costs” means the reasonable cost of recurrent expenditures, all which would not have been incurred absent the Project, such as: (i) travel and per diem costs; (ii) consumable items; and (iii) utilities and supplies.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made under such terms and conditions as the Bank shall specify by notice to the Recipient, on the basis of statements of expenditure for expenditures for: (a) works costing less than the equivalent of \$1,000,000 per contract; (b) goods or non-consultants’ services costing less than the equivalent of \$500,000 per contract; (c) consulting firms’ services costing less than the equivalent of \$200,000 per contract; (d) individual consultants’ services; and (e) training and operating costs.

5. The Recipient may request withdrawals from the GEF Trust Fund Grant Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the GEF Trust Fund Grant Account, the Recipient shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

6. If the Bank shall have determined at any time that any payment made from the GEF Trust Fund Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Bank, refund to the Bank for deposit into the GEF Trust Fund Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Bank.

B. Special Account

1. The Recipient 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 GEF Trust Fund Grant Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Recipient 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 Recipient 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 Recipient out of the Special Account, the Recipient 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.5 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 Recipient directly from the GEF Trust Fund Grant Account; or

(c) if the Recipient 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: (i) the records and accounts for the Special Account; or (ii) 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 Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant 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 Recipient 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 Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Recipient 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 GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of this 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 \$700,000 to be withdrawn from the GEF Trust Fund Grant 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 Recipient 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 Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.

(b) For replenishment of the Special Account, the Recipient 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 Recipient 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 Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant 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 GEF Trust Fund Grant 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 GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. 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 GEF Trust Fund Grant 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 GEF Trust Fund Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the GEF Trust Fund Grant, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant 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.5 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 support the mainstreaming of a multi-stakeholder, integrated management approach to the conservation and sustainable use of freshwater biodiversity in the Recipient's Amazon river basin, ultimately contributing to: (a) reducing threats to the integrity of freshwater ecosystems in the Recipient's Amazon river basin; (b) assuring the conservation and sustainable use of freshwater biodiversity; and (c) promoting the expansion and replication of integrated management of aquatic resources in the Recipient's Amazon river basin over the long term.

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

Part A: Planning and Public Policy

1. Formulation and implementation of action programs for integrated management of aquatic resources in three sub-basins of the Recipient's Amazon river basin, with a view to generate replicable experiences in the future, applicable in other Amazon river sub-basins.
2. Formulation and negotiation, in the Target Areas, of institutional arrangements for integrated management of aquatic resources, involving the participation of government institutions, non-governmental organizations and civil society organizations such as cooperatives, fishermen colonies and associations, indigenous associations and rural producers, among others.
3. Development and negotiation of a strategy for financial support to the implementation of action programs for integrated management of aquatic resources.
4. Carrying out of detailed participatory diagnostics in the Target Areas through studies and consultations to facilitate better understanding of aquatic biodiversity and water resources management issues.
5. Organization of seminars and meetings to present and discuss the Project approach with representatives from the Amazonian States.

Part B: Demonstration Activities

1. Design and implementation by Beneficiaries of projects (the Subprojects) to demonstrate how to incorporate freshwater biodiversity concerns into productive activities, selected on the basis of pre-defined criteria, and consisting of *inter alia*: (a) co-management of aquatic resources associated with the resolution of conflicts over access to and sustainable use of fisheries resources; (b) promotion and integration of ecotourism into local communities; (c) management of access and sustainable use of ornamental fisheries resources, offering alternatives to predatory or degrading activities; and (d) development and local dissemination by Beneficiaries of communication and dissemination products, presenting aquatic integrated resource management lessons learned and associated experiences systematized and made available to the public.
2. Carrying out of activities to support the mainstreaming of the activities under Parts A, B.1 and C of the Project, including, but not limited to: (a) commercialization of products obtained through the sustainable management of natural resources; (b) alternatives for fire and deforestation control, and environmental education; (c) rehabilitation of native riparian vegetation; (d) adoption of integrated solid waste management, aimed at water and soil conservation; (e) restoration of degraded lands, including erosion control; and (f) development of sustainable tourism to generate alternative employment and income.

Part C: Building Capacity

1. Organization and carrying out of capacity development, awareness and environmental education events for effective stakeholder implementation of integrated management of aquatic resources.
2. Provision of training to environmental and rural extension agents on the principles and mechanisms for sustainable integrated management of aquatic biodiversity, including methodologies for sustainable use and conservation of natural resources.
3. Design and carrying out of information and dissemination campaigns to increase awareness among local communities on issues related to freshwater biodiversity and sustainable use of aquatic resources.
4. Provision of institutional and individual training of Beneficiaries for the formation of partnerships and conflict resolution in connection with the conservation of freshwater ecosystems.
5. Provision of support for the establishment of mechanisms for decision-making and discussion, and resolution of conflicts over the use of aquatic resources in the Target Areas.

Part D: Management, Monitoring and Evaluation

1. Establishment and operation of the PCU.
2. Monitoring and evaluation of Project activities and impacts, including the implementation of a Project monitoring system (known as SIGMA).
3. Creation and implementation of the aquatic biodiversity information system (known as SIBA).
4. Dissemination of information on Project activities, results and lessons learned, to relevant stakeholders and society at large through various communication means, both locally and at the national level, and setting-up of a Project electronic homepage.

* * *

The Project is expected to be completed by February 28, 2012.

SCHEDULE 3

Procurement and Consultants' Services

Section I. General

A. All goods, works 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 Recipient.

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 \$100,000 equivalent per contract, and works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Community Participation. Goods and non-consultant services required for Parts D.2 and D.3 of the Project may be procured on the basis of community participation in accordance with the procedures set forth in the Operational Manual.

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. 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.

3. 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.

4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of said method.

5. 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.

6. 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. All other contracts shall be subject to Post Review by the Bank.