

**CONFORMED COPY**

**GRANT NUMBER TF 029358**

# **Japanese Grant Agreement**

**(Northeast Water Resources Management Project)**

**between**

**FEDERATIVE REPUBLIC OF BRAZIL**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**as Administrator of Grant Funds  
provided by JAPAN**

**Dated February 5, 1997**

**GRANT NUMBER TF 029358**

## **JAPANESE GRANT AGREEMENT**

AGREEMENT, dated February 5, 1997, between FEDERATIVE REPUBLIC OF BRAZIL (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as Administrator (the Administrator) of grant funds provided by JAPAN (Japan).

WHEREAS (A) pursuant to a letter agreement dated July 30, 1990 between Japan and the Bank and International Development Association (the Association), Japan has requested the

Bank and the Association, and the Bank and the Association have agreed, to administer grant funds to be made available by Japan for the financing of certain programs and projects supported by the Bank and the Association, as the case may be, in accordance with the provisions of such letter agreement; and

WHEREAS (B) Japan has agreed to make available to the Recipient a grant out of said grant funds (the Grant) to finance the cost of carrying out the technical assistance described in Schedule 2 to this Agreement (the Technical Assistance) on the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

## **ARTICLE I**

### **General Conditions; Definitions**

Section 1.01. (a) The following provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 1, 1985, with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
  - (ii) Sections 2.01 (1), (2), (3), (4), (6), (8), (9), (10), (11), (18) and (20), 2.02 and 2.03;
  - (iii) Section 3.01;
  - (iv) Section 4.01 and the first sentence of Section 4.09;
  - (v) Article V;
  - (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i) and (k), 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 and 9.08;
  - (ix) Sections 10.01, 10.03 and 10.04; and
  - (x) Article XI.
- (b) The General Conditions shall be modified as follows:
- (i) the term "Bank," wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the International Bank for Reconstruction and Development acting as Administrator of the Grant pursuant to the

letter agreement between Japan and the Bank and the Association referred to in Recital (A) of this Agreement, except that in Section 6.02, the term "Bank" shall also include the International Bank for Reconstruction and Development acting in its own capacity;

- (ii) the term "Borrower," wherever used in the General Conditions, means the Recipient;
- (iii) the term "Loan Agreement," wherever used in the General Conditions, means this Agreement;
- (iv) the term "Loan," wherever used in the General Conditions, means the Grant;
- (v) the term "Loan Account," wherever used in the General Conditions, means the Grant Account, an account opened by the Administrator on its books in the name of the Recipient to which the amount of the Grant is credited;
- (vi) the term "Project," wherever used in the General Conditions, means the technical assistance described in Schedule 2 to this Agreement; and
- (vii) Section 4.01 shall be modified to read:

"Withdrawals from the Grant Account shall be made in yen; provided, however, that if the expenditures to be financed out of the Grant have been paid or are payable in another currency, the Administrator shall, at the request of the Recipient, purchase such currency with the proceeds of such withdrawal."

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

- (a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (b) "SWR" means Secretaría de Recursos Hídricos, the Recipient's Secretariat of Water Resources which is housed within the Recipient's Ministry of the Environment, Water Resources and the Legal Amazon; and
- (c) "yen" and "¥" mean the currency of Japan.

## **ARTICLE II**

### **The Grant**

Section 2.01. The Administrator agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the Grant in an amount of eighty five million three hundred thousand yen (¥85,300,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and the Administrator, for expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods and services required for the carrying out of the Technical Assistance and to be financed out of the Grant.

(b) The Recipient may, for the purposes of the Technical Assistance, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Administrator, 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, 1998 or such later date as the Administrator shall establish. The Administrator shall promptly notify the Recipient of such later date.

### **ARTICLE III**

#### **Execution of the Technical Assistance**

Section 3.01. The Recipient shall, through SWR, carry out the Technical Assistance with due diligence and efficiency and in conformity with appropriate administrative, financial, educational and environmental practices, and to provide, promptly as needed, the funds, facilities, services and other resources required for the Technical Assistance.

Section 3.02. Except as the Administrator shall otherwise agree, procurement of goods and consultants' services required for the Technical Assistance and to be financed out of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03.(a) The Recipient, through its Ministry of the Environment, Water Resources and the Legal Amazon, shall maintain, or to cause to be maintained, records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of the Technical Assistance or any part thereof.

(b) The Recipient shall:

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

- (ii) furnish to the Administrator 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 Administrator shall have reasonably requested; and
  - (iii) furnish to the Administrator such other information concerning said records and accounts and the audit thereof as the Administrator shall from time to time reasonably request.
- (c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall:
- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
  - (ii) retain, until at least one year after the Administrator has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
  - (iii) enable the Administrator'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.

#### **ARTICLE IV**

##### **Effectiveness; Termination**

Section 4.01. This Agreement shall become effective upon its execution by the parties hereto.

Section 4.02. This Agreement shall continue in effect until the Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

#### **ARTICLE V**

##### **Representation**

Section 5.01. 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.



Telex:

SNIR BR 61191

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

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Luis Carlos Sturzenegger

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
as Administrator of the Grant

By /s/ Gobind T. Nankani

Acting Regional Vice President  
Latin America and the Caribbean

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Grant**

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Yen)</u>	<u>% of Expenditures be Financed</u>
(1) Goods	8,000,000	100%
(2) Consultants' Services	60,000,000	100%

(3) Travel Expenses	17,300,000	100%
TOTAL:	85,300,000	

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

3. The Administrator may require withdrawals from the Grant Account to be made on the basis of statements of expenditures for expenditures under Category (3) of the table set forth in paragraph 1 of this Schedule, and under contracts for goods costing less than the equivalent of \$50,000, for services of consulting firms costing less than the equivalent of \$100,000, and for services of individual consultants costing less than the equivalent of \$50,000, under such terms and conditions as the Administrator shall specify by notice to the Recipient.

## **SCHEDULE 2**

### **Description of Technical Assistance**

Provision of technical assistance in the preparation of the Northeast Water Resources Management Project, covering the following activities:

(a) Review all relevant work and studies done to date including available data base, models and designs, environmental database and environmental studies to date. Based on such exercise, develop a plan and scope of study to update all available information and studies and to develop and analyze areas not adequately addressed to date, including: erosion control, flood control, water quality, and environmental data and evaluation, among other related activities.

(b) Develop and calibrate computerized decision-support models and systems related to hydraulic infrastructure to all comprehensive evaluation of allocation and management options from optimal standpoint.

(c) Analyze the economic aspects of the proposed project, specifically addressing the economic trade-offs between the present and future use of the water resources, such as irrigation and hydropower. The study should analyze the direct and indirect cost recovery probabilities for the project.

(d) Develop a broad organizational scheme necessary to manage the planning and coordination of the proposed project, including financial, technical, environmental management and administrative activities.

(e) Develop a proposal for the establishment of a system of transferable water use rights for the distribution of water supplies, as well as a system of water rights administration and a registry of the water use rights. Such system should include studies to define the institutional and legal framework necessary to operate and maintain the project, establish a cost recovery policy, manage and distribute the water use rights for the project and administer the water use rights system for the water supplies developed by the project.

(f) Develop the organizational structure necessary to establish a system of locally



managed and governed water user agencies or associations capable of operating and maintaining the distribution network at the local level, managed and controlled by the water users. Such organizational structure should include a training component to strengthen the management of these associations and transform them into strong and viable local agencies capable of budgeting, collecting water charges, administering water use contracts and becoming fully in charge of water use accounting.

(g) Analyze the impact of the project on the stream morphology, sedimentation aggradation and degradation potential in the downstream channels, estuaries and beach nourishment areas of the rivers within the project area. Develop projected stream energy relationships and develop basic design parameters to alleviate any adverse impacts upon stream morphology. Analyze and develop a similar analysis for the recipient natural streams and drains that will be used to transport the water to its point of use.

(h) Analyze and evaluate watershed erosion, and develop watershed management options for reduction of sediment loads and control of point and non-point source pollution.

(i) Investigate and analyze the social and cultural impacts of the proposed project, including the conduct of archaeological and cultural surveys.

(j) Completion of a baseline assessment of the watersheds where proposed initiatives are located and identification of major water use conflicts;

(k) Review the existing administrative, regulatory and institutional framework for water resources management.

(l) Carrying out of workshops to discuss the proposed project, to involve beneficiaries and to analyze project objectives and components, and development of the final project proposal.

### **SCHEDULE 3**

#### **Procurement and Consultants' Services**

##### Section I. Procurement of Goods

Goods shall be procured: (a) 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 1996 (the Guidelines); and (b) under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to all contracts for goods estimated to cost the equivalent of \$50,000 or more, and the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to all other contracts of goods.

##### Section II. Employment of Consultants

1. Consultants' services shall be procured in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as

Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Recipient shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank for the use of its borrowers, with such modifications as shall have been agreed by the Administrator. Where no relevant standard contract documents have been issued by the Bank, the Recipient shall use other standard forms agreed with the Administrator.

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

#### **SCHEDULE 4**

##### **Special Account**

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Technical Assistance and to be financed out of the amount of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$250,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 Administrator 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 Recipient shall furnish to the Administrator 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 Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit in the Special Account such amount or amounts as the Recipient shall have

requested.

- (b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify.
- (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Administrator 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 Administrator shall, on behalf of the Recipient, withdraw from the 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. All such deposits shall be withdrawn by the Administrator from the Grant 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 Recipient out of the Special Account, the Recipient shall, at such time as the Administrator shall reasonably request, furnish to the Administrator 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 Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Recipient directly from the Grant 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 Recipient shall have failed to furnish to the Administrator within the period of time specified in Section 3.03 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator 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 Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Category, minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions with respect to the Technical Assistance, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Administrator 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 Administrator 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 Administrator, the Recipient shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator 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 Administrator 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 Recipient shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

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

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

