

CONFORMED COPY

OTF GRANT NUMBER TF021918 BR

Ozone Projects Trust Fund Grant Agreement

(Ozone Depleting Substances Elimination Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as Trustee of the Ozone Projects
Trust Fund

and

FINEP - FINANCIADORA DE ESTUDOS E PROJETOS

Dated December 17, 1993

OTF GRANT NUMBER TF021918 BR

OZONE PROJECTS TRUST FUND GRANT AGREEMENT

AGREEMENT, dated December 17, 1993, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, acting as Trustee of grant funds provided by Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer (the Protocol) into the Ozone Projects Trust Fund (OTF) (the Trustee) and FINEP-FINANCIADORA DE ESTUDOS E PROJETOS (the Recipient).

WHEREAS (A) the International Bank for Reconstruction and Development (the Bank) pursuant to Resolution No. 91-5 of March 14, 1991, of the Executive Directors of the Bank (the Resolution), established the Global Environment Facility, consisting of the Global Environment Trust Fund (GET), Cofinancing Arrangements with the GET and the OTF, to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

WHEREAS (B) the Parties to the Protocol have established the Multilateral Fund (the Fund) for the implementation of the Protocol to operate under the authority of the said Parties to provide the financing of agreed incremental costs to enable the Parties operating under paragraph 1 of Article 5 of the Protocol to comply with control measures provided for in the Protocol;

WHEREAS (C) the Executive Committee of the Fund (the Executive Committee) and the Bank have entered into an agreement effective on July 9, 1991, pursuant to which the Executive Committee has agreed to provide funds to the OTF to be administered by the Bank as Trustee in accordance with the provisions of the said agreement and the Resolution;

WHEREAS (D) the Recipient and the Federative Republic of Brazil, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested assistance from the resources of the OTF in the financing of the Project, and the Trustee has determined that such assistance would be in accordance with the provisions of the Resolution;

WHEREAS (E) the Federative Republic of Brazil, through the letters from its Minister of Science and Technology, dated December 8, 1993, and from its Minister of Industry, Commerce and Tourism, dated December 9, 1993, to the Trustee, has agreed that the resources of the OTF approved for the financing of the Project be provided directly to the Recipient under the terms and conditions set forth in this Agreement;

WHEREAS (F) the Recipient represents that there are not impediments,

under the laws of Brazil, for the Recipient to carry out the Project and perform each of its obligations under this Agreement;

WHEREAS (G) the Trustee has agreed, on the basis, inter alia, of the foregoing, to extend a grant (the OTF 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 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), (15), (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), (e), (i) and (k), 6.03, 6.04 and 6.06;
- (vii) Sections 9.01 (a), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (viii) Section 10.03;
- (ix) Article XI; and
- (x) Sections 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 Section 2.01 (8) thereof and the last use of such

term in Section 5.01 thereof, means the Trustee 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 OTF Grant;
- (v) the term "Loan Account", wherever used in the General Conditions, means the OTF Grant Account; and
- (vi) in Section 10.04 (c) the words "the President of the International Court of Justice or, failing appointment by said President, by the Secretary-General of the United Nations" are replaced by "the Permanent Secretary General of the Permanent Court of Arbitration, the Hague."

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 additional terms have the following meanings:

- (a) "Beneficiary" means any entity in the public or private sector which shall carry out a Subproject;
- (b) "ODS" means ozone depleting substances;
- (c) "GTO Arrangement" means the arrangement made with the Recipient, set forth in the letter from the Executive Secretariat of the Interministerial Ozone Technical Group of the Government of Brazil, dated December 8, 1993, setting forth the assistance to be provided to such Group in the carrying out of Part D of the Project;
- (d) "PMU" means the unit referred to in Section 3.06 of this Agreement;
- (e) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(f) "Subgrant" means a grant to be provided under a Subgrant Agreement to finance a Subproject;

(g) "Subgrant Agreement" means the agreement referred to in Section 3.04 (a) of this Agreement;

(h) "Subproject" means a project, selected and prepared in accordance with the Subproject Guidelines, and approved by the Trustee or the Executive Committee, as the case may be, consisting of investments and other activities eligible under the Protocol which result in reduction of ODS use or in the substitution of non ozone depleting technologies for ozone depleting technologies; and

(i) "Subproject Guidelines" means the guidelines, submitted to the Trustee by the Recipient, through the letter dated December 13, 1993, for the preparation of Subprojects for their financing under the Grant.

ARTICLE II

The OTF Grant

Section 2.01. The Trustee agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the OTF Grant in an amount in various currencies equivalent to ten million and nine hundred thousand Dollars (\$10,900,000).

Section 2.02. (a) The amount of the OTF Grant may be withdrawn from the OTF Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Trustee shall so agree, to be made) in respect of the reasonable cost of goods and services required for carrying out the Project and to be financed out of the proceeds of the OTF Grant.

(b) The Recipient shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Trustee on terms and conditions satisfactory to the Trustee, 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, 1995 or such later date as the Trustee shall establish. The Trustee shall promptly notify the Recipient of such later date.

Section 2.04. The Trustee shall not be obligated to make any payment under this Agreement except to the extent it shall have received funds for the purpose of the Project from the Executive Committee.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient 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 with due diligence and efficiency and in accordance with the criteria set forth in the Report of the Second Meeting of the Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer (London, June 27 to 29, 1990 - UNEP/OZL. 2/3, Annex IV pages 42 to 44), as the same may be amended from time to time by the Parties to the Protocol, and in conformity with appropriate administrative and financial practices and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) above, the Recipient shall carry out Part D of the Project with the assistance of GTO in accordance with the provisions of the GTO Arrangement.

Section 3.02. Except as the Trustee 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 OTF Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. When submitting a Subproject to the Trustee, for approval of the Trustee or the Executive Committee (as the case may be, pursuant to paragraph 2 (b) and (c) of Schedule 1 to this Agreement), the Recipient shall furnish to the Trustee an application, in form and substance satisfactory to the Trustee, containing: (a) an appraisal of the Subproject, and a description of the expenditures proposed to be financed out of the proceeds of the OTF Grant; (b) a detailed description of how such Subproject meets the criteria and requirements set forth in the Subproject Guidelines; and (c) such other information as the Trustee or the Executive Committee shall reasonably request in respect of such Subproject.

Section 3.04. (a) The Recipient shall enter into an agreement (the Subgrant Agreement) with each Beneficiary, under terms and conditions satisfactory to the Trustee, including those set forth in Schedule 5 to this Agreement, providing for

the transfer, on a grant basis, of the proceeds of the OTF Grant allocated to such Beneficiary's Subproject and the obligation of the Beneficiary to carry out such Subproject.

(b) The Recipient shall exercise its rights under the Subgrant Agreement in such a manner as to protect the interests of the Recipient and the Trustee and to accomplish the purposes of the OTF Grant, and, except as the Trustee shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subgrant Agreement or any part thereof.

Section 3.05. The Recipient shall be entitled to: (a) a fee in an amount equivalent to 2.5% of the amounts disbursed under each Subgrant Agreement, such fee to be paid out of the proceeds of the OTF Grant as follows: (i) 1.25% of the Subgrant amount, on the date of the signing of the Subgrant Agreement; and (ii) the remaining, on the date of the last disbursement of the Subgrant proceeds; and (b) reimbursement of travel and other expenses of the Recipient's employees in connection with the preparation and supervision of the Subprojects, provided, however, that such expenses shall not exceed in the aggregate an amount equivalent to \$50,000.

Section 3.06. The Recipient shall, at least during the execution of the Project, maintain within its Environmental Department, the unit (the PMU) responsible for the management and coordination of the implementation of the Project, including the appraisal and supervision of Subprojects, such unit to be headed by a Project manager, with qualifications, experience, functions and responsibilities satisfactory to the Trustee, assisted by qualified staff in adequate numbers.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall: (i) maintain records and separate accounts adequate to reflect in accordance with sound accounting practices its operations, resources and expenditures in respect of the Project; and (ii) cause each Beneficiary to maintain records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of such Beneficiary in respect of its Subproject.

(b) The Recipient 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 Trustee;

- (ii) furnish to the Trustee as soon as available, but in any case not later than four 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 Trustee shall have reasonably requested; and
- (iii) furnish to the Trustee such other information concerning said records and accounts and the audit thereof as the Trustee shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the OTF 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 separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Trustee has received the audit report for the fiscal year in which the last withdrawal from the OTF Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Trustee'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 V

Remedies of the Trustee

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) the Federative Republic of Brazil or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Recipient or for the suspension of its operations;

(b) the Federative Republic of Brazil or any other authority shall have taken any action, including the enactment or issuance of legislation or regulations, which, in the opinion of the Bank, may adversely affect, prevent, or interfere with, the carrying out of the Project or the performance by the Recipient of any of its obligations under this Agreement;

(c) the Federative Republic of Brazil shall have failed to afford a reasonable opportunity for representatives of the Trustee to visit any part of its territory for purposes related to the Project;

(d) the Federative Republic of Brazil: (i) shall have been suspended from membership in or ceased to be a member of the Bank; or (ii) shall have ceased to be a member of the International Monetary Fund;

(e) the Recipient shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by the Recipient or by others whereby any of the assets of the Recipient shall or may be distributed among its creditors; or (f) the GTO Arrangement shall have been amended or terminated without the Bank's prior approval, or any of the parties to the GTO Arrangement shall have not complied with any of their respective obligations thereunder.

ARTICLE VI

Arbitration

Section 6.01. Any dispute arising out of or relating to this Agreement which is not settled by agreement of the parties shall be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules in force on the date of this Agreement. In the event of a conflict between the UNCITRAL Arbitration Rules and the terms of this Agreement, the terms of this Agreement shall prevail.

ARTICLE VII

Effectiveness; Termination

Section 7.01. The following event is specified as a condition to the effectiveness of the OTF Grant Agreement, namely, that a model form of the Subgrant Agreements, satisfactory to the Bank, has been furnished to the Bank.

Section 7.02. The date March 17, 1994 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 7.03. This Agreement shall continue in effect until the OTF Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VIII

Representative of the Recipient; Addresses

Section 8.01. The President of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

FINEP - FINANCIADORA DE ESTUDOS & PROJETOS
Praia do Flamengo 200
22210 - 030 Rio de Janeiro
Brazil

Telex:

21-23468

For the Trustee:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT as Trustee of
the Ozone Projects Trust Fund

By /s/ Rainer B. Steckhan
Director Country Department I
Latin America and the Caribbean Region

FINEP - FINANCIADORA DE ESTUDOS E PROJÉTOS

By /s/ Lourival Carmo Monaco
/s/ Sergio S. Thompson-Flores
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the OTF Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the OTF Grant, the allocation of the amounts of the OTF 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 OTF Grant Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Subgrants	10,000,000	100% of amounts disbursed
(2) Consultants' services under Parts B and D of the Project	550,000	100%
(3) Consultants' services under Part C of the Project	50,000	100%
(4) (a) Fee referred to in Section 3.05(a) of this Agreement	250,000	100%
(b) Expenses referred to in Section 3.05(b) of this Agreement	50,000	100%
TOTAL	10,900,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement, except that withdrawals may be made in respect of Categories (1) and (4) of the table in paragraph 1 of this Schedule on account of payments made for expenditures before the date of this Agreement but after March 19, 1990;

(b) under a Subproject estimated to cost the equivalent of \$500,000 or more, unless the Executive Committee has approved such Subproject;

(c) under a Subproject estimated to cost the equivalent of less than \$500,000, unless the Trustee has approved such Subproject; and

(d) under any Subproject, unless the respective Subgrant Agreement has been entered into between the parties thereto.

3. Notwithstanding the provisions of paragraph 1 above, if the Trustee shall have determined at any time that any payments from the OTF Grant Account were used for an expenditure not eligible for financing under this Schedule or used in any manner contrary to the provisions of this Agreement, the Recipient shall, promptly upon notice from the Trustee, refund to the Trustee, for deposit in the OTF Grant Account, an amount equal to the amount so used or the portion thereof specified by the Trustee.

4. The Trustee may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures under contracts for goods and works not exceeding \$1,000,000 equivalent and under contracts with consultants' firms not exceeding \$100,000 equivalent, under such terms and conditions as the Trustee shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in the effort to eliminate ODS consumption in Brazil.

The Project consists of the following parts, subject to such modifications thereof as the Trustee and the Recipient may agree upon from time to time to achieve such objectives:

Part A:

Provision of Subgrants.

Part B:

Provision of assistance to FINEP in identifying, preparing, appraising and supervising Subprojects, through consulting services.

Part C:

A program of training and technology dissemination to improve the

capability of FINEP staff to appraise and supervise Subprojects.

Part D:

Preparation of a country program to phase out ODS consumption in Brazil, and carrying out of studies relevant to the implementation of such program.

* * *

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

1. For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in bid evaluation.

2. In the procurement of goods and works in accordance with this Part A, the Recipient shall use or cause to be used the relevant standard bidding documents issued by the Trustee for the use of the recipients of its grants, with such modifications thereto as the Trustee shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Trustee, the Recipient shall use or cause to be used standard bidding documents based on other internationally recognized standard forms agreed with the Trustee.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Brazil may be granted a margin of preference in accordance with the provisions of the Guidelines, provided, however, that:

1. All bidding documents for the procurement of goods shall clearly indicate any preference which would be granted, the information required to establish the eligibility of a bid for such preference and the following methods and stages that will be followed in the evaluation and comparison of bids.

2. After evaluation, responsive bids will be classified in one of the following two groups:

(a) Group A: Bids offering goods manufactured in Brazil if the bidder shall have established to the satisfaction of the Recipient and the Trustee that such goods contain components manufactured in Brazil equal to at least 50% of the value of the complete goods.

(b) Group B: Bids offering any other goods.

3. In order to determine the lowest evaluated bid of each group, all evaluated bids in each group shall first be compared among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, or the sales and similar taxes levied in connection with the sale or delivery of the goods pursuant to the bids. Such lowest evaluated bids shall then be compared with each other, and if, as a result of this comparison, a bid from group A is the lowest, it shall be selected for the award.

4. If, as a result of the comparison under paragraph 3 above, the lowest evaluated bid is a bid from group B, all group B bids shall be further compared with the lowest evaluated bid from group A after adding: (i) to the evaluated bid price of goods to be imported in each group B bid an amount equal to the smaller of: (A) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in such group B bid; or (B) 15% of the c.i.f. bid price of such goods; and (ii) to the ex-factory bid price of goods supplied domestically offered in each group B bid an amount equal to the smaller of: (A) the amount of customs duties and other import taxes which would be levied on the goods offered in such group B if they originated from the same foreign country as the bid included in group B which enjoys the lowest customs duties and other import taxes; or (B) 15% of the ex-factory bid price of such goods. If, as a result of this comparison, the bid from group A is the lowest, it shall be selected for the award; if not, the lowest

evaluated bid from group B, as determined under paragraph 3 above, shall be selected for the award.

Part C: Other Procurement Procedures

1. Civil works and goods to be procured by Beneficiaries in the private sector, estimated to cost less than the equivalent of \$5,000,000 per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three contractors or suppliers, as the case may be, eligible under the Guidelines, in accordance with procedures acceptable to the Trustee.

2. Civil works and goods to be procured by Beneficiaries in the public sector, estimated to cost less than the equivalent of \$5,000,000 and \$350,000, respectively, per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Trustee.

3. Civil works and goods to be procured by Beneficiaries in the public sector, estimated to cost less than the equivalent of \$350,000 and \$100,000, respectively, per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three contractors or suppliers, as the case may be, eligible under the Guidelines, in accordance with procedures acceptable to the Trustee.

4. Goods may be procured through direct contracting in the cases set forth in paragraph 3.5 of Section III of the Guidelines and after the prior approval of the Trustee to such procurement procedure.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Trustee pursuant to said paragraph 2 (d) shall be furnished to the Trustee prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding

paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Trustee pursuant to said paragraph 3 shall be furnished to the Trustee as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Part E: FSRMM

For the purposes of this Schedule and the Guidelines, the term "customs duties and other import taxes" includes the Guarantor's Freight Surcharge for the Renewal of the Merchant Marine (Adicional ao Frete Para a Renovação da Marinha Mercante), established by Decree Law 1,142 of December 30, 1970, as amended to December 31, 1987, or any other tax, levy or charge that, in the reasonable opinion of the Trustee, may substitute it, in whole or in part, after January 1, 1988.

Part F: Special Provisions

Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement of goods and/or works to be undertaken pursuant to Part C.2 hereof:

1. 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.

2. 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.

3. The arrangements, under the invitation to bid, for a joint-venture (consórcio) of Brazilian and foreign firms shall be approved by the Bank in advance in each case.

4. The invitation to bid shall not establish, for purposes of acceptance of bids,

minimum and/or maximum amounts for the contract prices.

5. The Bank's concurrence shall be obtained to any recommendation for rejection of a bid because the unit prices offered are considered to be excessively low.

6. 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.

Section II. Employment of Consultants

1. In order to assist the Recipient and the Beneficiaries in the carrying out of the Project, the Recipient shall employ or cause to be employed consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Trustee. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Trustee on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Trustee in August 1981 (the Consultants Guidelines).

2. For complex, time-based assignments, the Recipient shall employ or cause to be employed such consultants under contracts using the standard form of contract for consultant's services issued by the Trustee, with such modifications as shall have been agreed by the Trustee. Where no relevant standard contract documents have been issued by the Trustee, the Recipient shall use or cause to be used other standard forms agreed with the Trustee.

3. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultants Guidelines requiring prior Trustee review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Trustee review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature, as reasonably determined by the Trustee, and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 4

Terms and Conditions of Subgrants

Subgrants shall be provided on terms whereby the Recipient shall obtain, through the Subgrant Agreements, rights adequate to protect the interests of the Trustee and the Recipient, including the right to:

(a) require the Beneficiary to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial, environmental and ecological standards;

(b) require that:

(i) the goods, works and consultants' services to be financed out of the proceeds of the OTF Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and

(ii) such goods, works and consultants' services shall be used exclusively in furtherance of the objectives of the Project;

(c) require the Beneficiary to comply with the obligations set forth in Section 4.01 of this Agreement;

(d) inspect, by itself or jointly with representatives of the Trustee, if the Trustee shall so request, the goods and plants included in the Subproject, the operation thereof and any relevant records and documents;

(e) require that:

(i) the Beneficiary shall take out and maintain with responsible insurers such insurance against such risks and in such amounts, as shall be consistent with sound business practices; and

(ii) without any limitation upon the foregoing, such insurance shall cover the hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the OTF Grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(f) obtain all such information as the Trustee shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits derived from the Subproject; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the OTF Grant upon failure by the Beneficiary to perform its obligations under the Subgrant Agreement.

SCHEDULE 5

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 Project and to be financed out of the proceeds of the OTF 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 \$1,000,000 to be withdrawn from the OTF 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 Trustee 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 Trustee a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Trustee shall, on behalf of the Recipient, withdraw from the OTF 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 Trustee requests for deposits into the Special Account at such intervals as the Trustee shall specify.

- (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Trustee 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 Trustee shall, on behalf of the Recipient, withdraw from the OTF 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 Trustee from the OTF 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 Trustee shall reasonably request, furnish to the Trustee 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 Trustee shall not be required to make further deposits into the Special Account:

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

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

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

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

