Global Environment Facility
Trust Fund Grant Agreement

(Ecosystem Restoration of Riparian Forests in São Paulo Project)

between

STATE OF SÃO PAULO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

Dated June 27, 2005
GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated June 27, 2005, between the STATE OF SÃO PAULO (the Recipient) and 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 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 Recipient has also received financing from the Bank acting in its own capacity by an agreement dated December 7, 1999 between the Recipient and the Bank for the Land Management III Project (the Prior Loan Agreement), in an aggregate principal amount of fifty five million Dollars ($55,000,000) of which $10,000,000 were cancelled on July 16, 2004 (the Prior Loan) which finances Parts C.1 and D.3. (a) of the Project out of part of the proceeds of the Prior Loan; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend 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 (a), (c), (d), (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) Sections 10.01, 10.03 and 10.04;

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 Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Loan, or on their importation, manufacture,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

(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.”; and

(viii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 are replaced with the words “corrupt, fraudulent, collusive or coercive”.

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

(b) “Beneficiary” means: (i) a farmer or group of farmers; or (ii) a Community Association or cooperative composed of farmers, either of which reside or farm in a Microwatershed, and meet the criteria set forth in the Operational Manual as a beneficiary of a Land Management Subproject and/or a Riparian Forest Rehabilitation Subproject under Parts C.1 and/or C.2 of the Project;

(c) “CATI” means Coordenadoria da Assistência Técnica Integral, the administrative unit within SAA established by the Recipient’s Decree No. 48133 of June 20, 1967, as amended by the Recipient’s Decree No. 41608 of February 24, 1997;

(d) “Community Association” means a civil association formed by members of a community (associação civil) duly established in the Recipient’s territory in accordance with the FRB’s laws;

(e) “CONSEMA” means Conselho Estadual do Meio Ambiente, the Recipient’s Environmental Council;

(f) “Demonstration Microwatershed” means any of the Microwatersheds selected for implementation of Riparian Forest Restoration Subprojects in accordance with the provisions of the Operational Manual;

(g) “Eligible Categories” means Categories (1), (2) and (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;
(h) “Eligible Expenditures” means the expenditures for goods, works, consultants’ services, training and operating costs referred to in Section 2.02 of this Agreement;

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

(j) “FRB” means the Federative Republic of Brazil;

(k) “Inter-Agency Coordination Committee” means the committee referred to in Section 3.01 (c) (i) (B) of this Agreement;

(l) “Inter-Agency Coordination Decree” means the decree to be issued by the Recipient to coordinate the activities of SMA and SAA in respect of the Project, and to establish the Inter-Agency Coordination Committee;

(m) “Land Management Subproject” means a subproject financed out of the proceeds of the Prior Loan and consisting of one or more of the activities specified in Part C.1 of the Project, which subproject is selected, approved and implemented in accordance with the requirements of the Prior Loan Agreement and the Operational Manual;

(n) “Microwatershed” means microrregião, a portion of a watershed or area, bound peripherally by a water parting, and draining ultimately in a particular watercourse which is located in any of the Project River Basins and included in the Prior Loan, and meets the criteria set forth in the Operational Manual;

(o) “Microwatershed Plan” means the plan for the management of a Microwatershed for implementation together with a Riparian Forest Restoration Subproject and/or Land Management Subproject;

(p) “Model Form” means the model Riparian Forest Rehabilitation Subproject Agreement set forth in the Operational Manual;

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

(r) “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;
(s) “PIP” means an individual farm plan to be implemented by a Beneficiary in connection with a Land Management Subproject and/or a Riparian Forest Restoration Subproject;

(t) “PMU” means Unidade de Gerenciamento do Projeto, the unit to be established within SMA for the purposes of managing the carrying out of the Project;

(u) “Procurement Plan” means the Recipient’s procurement plan, dated April 7, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(v) “Project River Basin” means any of the following river basins selected by the Recipient to protect the threatened biodiversity of its ecoregions, all described in the Operational Manual: (i) Paraíba do Sul; (ii) Piracicaba/Capivari/Jundiaí; (iii) Mogi-Guaçu; (iv) Tietê/Jacaré; and (v) Aguapeí or any other Project River Basin as the Bank may agree;

(w) “Protected Area” means a Unidade de Conservação, a protected area referred to in the Federative Republic of Brazil’s Law No. 9985 of July 18, 2000;

(x) “Report-based Disbursements” means the Recipient’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;

(y) “Riparian Forests Restoration Program” means a program being developed by the Recipient and consisting of a comprehensive policy and regulatory framework for the sustainable restoration of its riparian forests and its monitoring;

(z) “Riparian Forest Restoration Subproject” means a subproject consisting of one or more of the activities specified in Part C.2 of the Project, which subproject is selected, approved and implemented in accordance with the requirements of this Agreement and the Operational Manual;

(aa) “Riparian Forest Restoration Subproject Agreement” means any of the agreements to be entered into between SMA and a Beneficiary pursuant to Section 3.01 (d) of this Agreement;

(bb) “SAA” means the Recipient’s Secretariat of Agriculture and Supply;
“SMA” means the Recipient’s Secretariat of the Environment;

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

“Steering Committee” means the committee referred to in Section 3.01 (c) (ii) (A) of this Agreement and established pursuant to CONSEMA’s Resolution No. 27/03 of 2003;

“University” means any of the following institutions: USP (Universidade de São Paulo), UNESP (Universidade Estadual Paulista “Julio de Mesquita Filho”), UNICAMP (Universidade Estadual de Campinas), UNITAU (Universidade de Taubaté), UNIVAP (Universidade do Vale do Paraíba), and EMBRAPA (Empresa Brasileira de Pesquisa Agropecuária) or any other institutions as the Bank may agree;

“University Cooperation Agreement” means any of the agreements to be entered into between SMA and a University pursuant to Section 3.01 (b) of the Agreement; and

“Working Group” means the working group referred to in section 3.01 (c) (ii) (B) of this Agreement and established pursuant to SMA’s Resolution No. 28 of May 19, 2004 or another group with responsibilities, structure and functions satisfactory to the Bank.

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 equal to seven million seven hundred and fifty thousand Dollars ($7,750,000).

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, training and operating costs required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be January 31, 2010 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. (a) 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 SMA, with the assistance of:

(i) Universities in respect of Parts A, B.1 and E.2 of the Project; and

(ii) SAA and CATI in respect of Parts C.1 and D.3 (a) of the Project;

all with due diligence and efficiency and in conformity with appropriate administrative, financial, social and environmental standards and practices, as well as in conformity with the Operational Manual, the Approved POAs, and the Microwatershed Plans, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Recipient shall enter into an agreement with each of the Universities participating in Parts A, B.1 and E.2 of the Project, under terms and conditions satisfactory to the Bank, to set forth, inter alia, their respective responsibilities in the implementation of such Parts of the Project.

(c) The Recipient shall, during Project implementation:

(i) establish and maintain:

(A) the PMU with a Project manager, technical and administrative deputies, and procurement and financial management experts, with responsibilities, structure and functions satisfactory to the Bank; and

(B) the Inter-Agency Coordination Committee with responsibilities, satisfactory to the Bank, which shall include in particular ensuring the availability and release of financing related to the Prior Loan and the GEF Grant and counterpart resources, all as required for implementation of the Project and the activities financed by the Prior Loan; and
(ii) maintain:

(A) the Steering Committee with responsibilities, structure and functions satisfactory to the Bank, which shall include in particular the review and approval of annual operating plans referred to in Section 3.04 of this Agreement; and

(B) the Working Group with responsibilities satisfactory to the Bank which shall include in particular ensuring the coordination by SMA and CATI/SAA in the implementation of Parts C.1 and D.3 (a) of the Project.

(d) The Recipient shall enter into a Riparian Forest Restoration Subproject Agreement with each Beneficiary, substantially in accordance with the terms of the Model Form and including, *inter alia*:

(i) the Beneficiary’s obligation:

(A) to abide by the technical and environmental practices and production systems required by the Riparian Forest Restoration Subproject;

(B) to complete all required training; and

(C) to carry out the PIP and the Riparian Forest Restoration Subproject; and

(ii) the Recipient’s obligation to make all necessary payments to the consultants and contractors employed, on the Beneficiary’s behalf, to assist in the implementation of the Riparian Forest Restoration Subproject.

(e) The Recipient shall exercise its rights and comply with its obligations under each of the University Cooperation Agreements and the Riparian Forest Restoration Subproject Agreements, in such a manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the Grant and, except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce any of the University Cooperation Agreements or the Riparian Forest Restoration Subproject Agreements or any provision thereof.
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 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 January 31 and July 31 each year, commencing January 31, 2006, 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 objective thereof during the period following such date; and

(c) review with the Bank not later than February 28 and August 31 each year, commencing February 28, 2006, 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 3.04. (a) The Recipient shall, by November 30 of each year during Project implementation, prepare and furnish to the Bank the proposed annual operating plan and budget, satisfactory to the Bank, detailing the Project activities proposed to be carried out during the next succeeding year and the respective sources of funding therefor; and

(b) not later than 30 days after the enactment of the Recipient’s budgetary law, furnish to the Bank information on the portion of the budget allocated to the Project for each year in question, and the resulting respective annual operating plan referred to in paragraph (a) of this Section, for such year (Approved POA).

Section 3.05. The Recipient shall carry out the Project in accordance with a manual, satisfactory to the Bank, said manual to include, \textit{inter alia}:
(a) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement and financial management requirements thereof);

(b) criteria for the selection of Microwatersheds and Beneficiaries;

(c) requirements for the selection, approval, financing and implementation of Riparian Forests Restoration Subprojects and Land Management Subprojects, including the environmental screening, evaluation, approval and monitoring procedures and pest management plan; and

(d) the model draft agreement for Riparian Forests Restoration Subprojects.

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

Section 3.06. For the purposes of Section 9.07 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, through SMA, maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient 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 made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Recipient 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 and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient’s progress reporting obligations set out in Section 3.03 of this Agreement, the Recipient shall, through SMA, prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the GEF Trust Fund Grant, and
explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Bank

Section 5.01. (a) Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified subject to subparagraph (b) of this paragraph:

(i) the right of the Recipient to withdraw the proceeds of the Prior Loan made to the Recipient for the financing of Parts C.1 and D.3 (a) of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(ii) the Prior Loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Recipient establishes to the satisfaction of the Bank that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (ii) adequate funds for Parts C.1 and D.3 (a) of the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.
ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as conditions to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Recipient has adopted the Operational Manual;

(b) the PMU has been established in form and substance satisfactory to the Bank, and the Project coordinator and required financial management and procurement experts have been appointed;

(c) the Inter-Agency Coordination Decree has been issued and duly published; and

(d) a financial management system satisfactory to the Bank has been implemented in SMA.

Section 6.02. The date September 26, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Secretary of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:
For the Recipient:

Secretaria de Estado dos Negocios da Fazenda
Avenida Rangel Pestana 300/5º Andar
01017-000 São Paulo, S.P.
Brazil

Facsimile: 55-11-3107-6942

With copy to:

Secretaria do Meio Ambiente
Av. Frederico Hermann Junior 345
Alto de Pinheiros
05459-900 São Paulo
Brazil

Facsimile: 55-11-3030-6177

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
Telex: 248423 (MCI)
Facsimile: (202) 477-6391
Washington, D.C. 64145 (MCI)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

STATE OF SÃO PAULO

By /s/ Geraldo Alckmin

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
as an Implementing Agency of the Global Environment Facility

By /s/ Vinod Thomas

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the GEF Trust Fund Grant Allocated (Expressed in Dollars)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, consultants’ services (including audits) and Training (other than for Part D.3 (a) of the Project and for Riparian Forests Restoration Subprojects and Land Management Subprojects)</td>
<td>4,568,850</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Riparian Forests Restoration Subprojects</td>
<td>2,279,200</td>
<td>100% of the costs of goods (except for seedlings), works and services for the respective Riparian Forest Restoration Subproject</td>
</tr>
<tr>
<td>(3) Operating Costs (other than for Parts C.1 and D.3 (a) of the Project)</td>
<td>650,980</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Unallocated</td>
<td>250,970</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>7,750,000</td>
<td></td>
</tr>
</tbody>
</table>

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), materials, and rental of training facilities and equipment; and

(b) the term “Operating Costs” means reasonable recurrent expenditures that would not have been incurred by the Recipient absent the Project, for transportation and per-diem costs of SMA’s and the Universities’ staff, office rent and utilities, operation and maintenance of office equipment, and non-durable goods, all needed for the implementation of the Project.

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

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods, works, and services of consulting firms and individual consultants for which prior review is not required in accordance with Section IV of Schedule 3 to this Agreement; and (b) Training and Operating Costs, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

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.

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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the 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 the GEF Trust Fund Grant 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 unwritten 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 long-term and large-scale restoration of riparian forests of the Recipient’s Cerrado and Atlantic Forest biomes in the Project River Basins through the development and harmonization of the Recipient’s policy, regulatory, economic and technological frameworks, while providing opportunities for improved livelihoods and economic well-being of rural communities.

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: Policy Development

Carrying out of studies, and equipping, as needed for the development of the Riparian Forests Restoration Program, including on mechanisms for insertion of Project beneficiaries in markets for environmental services rendered by riparian forests, and payment mechanisms for these environmental services, with a special focus on the needs of small farmers.

Part B: Sustainable Riparian Forests Restoration

1. Development, testing and dissemination of technologies for riparian forests rehabilitation and restoration in the Project River Basins, including carrying out of adaptive research, systematization of restoration models, and establishment of monitoring methodologies.

2. Improvement of the capacity to produce and market seed and seedlings of native trees and shrubs as needed for implementation of the Riparian Forests Restoration Program including:

   (a) operation of two regional reference centers for seed production in Mogi-Guaçu and São Paulo, and another three units for support to farmers; and

   (b) preparation of a proposal to regulate seed collection in Protected Areas and other selected areas.
Part C: On-the-Ground Investments in Sustainable Land Management

Promotion and dissemination of ideas, methodologies, and technologies for sustainable management of natural resources in productive areas, and for the sustainable restoration of riparian forests in the territory of the Recipient, through:

1. on-the-ground adoption of agro-pastoral sustainable land management practices in 150 Microwatersheds (Land Management Subprojects), including:
   
   (a) the preparation of Microwatershed Plans and PIPs;
   
   (b) the adoption of sustainable land management technologies for improving soil management and quality of river water; and
   
   (c) the development and expansion of the Recipient’s reforestation program through the distribution of seedlings; and

2. on-the-ground demonstration of riparian forest rehabilitation activities in the Demonstration Microwatersheds (the Riparian Forest Restoration Subprojects) including:
   
   (a) the carrying out of diagnostic studies; and
   
   (b) the implementation of existing or new technologies for restoration of riparian forests.

Part D: Environmental Education and Training

1. Carrying out of an education campaign to raise awareness, inform and train teachers in schools of the Project River Basins on topics related to sustainable use of natural resources and its relationship to the quality of life of the communities, including land management, ecosystems and biodiversity.

2. Carrying out of workshops, awareness campaigns and radio and other dissemination activities to raise awareness of individuals and opinion-making institutions on the importance of biodiversity conservation, riparian forests and water resource production.

3. Training of: (a) rural extension agents; and (b) environmental agents working in the Microwatersheds on issues related to rehabilitation, restoration and conservation of riparian forests and ecosystems services and environmental monitoring.
4. (a) Dissemination of environmentally sustainable land management practices for residents in the Project River Basins;
   
(b) promotion of local models of community association;

(c) training of local communities in the development and implementation of sustainable income-generation activities; and

(d) training of local producers operating in the Microwatersheds in techniques for rehabilitation of degraded lands, and in techniques for collection of seeds and production of seedlings of native trees.

Part E: Project Management, Monitoring and Evaluation, and Information Dissemination

1. Establishment and operation of the PMU.

2. Monitoring and evaluation of Project activities and impacts at the Microwatershed level.

3. Dissemination of information on Project activities, results and lessons learned, to relevant stakeholders and society at large through various communications means, including regional, state and national workshops, media campaigns, and setting-up of a Project homepage.

* * *

The Project is expected to be completed by July 31, 2009.
SCHEDULE 3

Procurement

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, Works 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 FRB.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods and works estimated to cost less than $250,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding using standard bidding documents satisfactory to the Bank and the following additional provisions:

   (a) 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.

(b) Whenever required by the Bank, the invitation to bid shall be advertised in a newspaper of wide circulation in Brazil and in the FRB’s Official Gazette.

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

(d) The invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.

(e) The purchaser shall not, without the Bank’s prior approval, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.

2. Shopping. Goods estimated to cost less than $100,000 equivalent per contract and works estimated to cost less than $150,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping, including as a form of Shopping for goods the electronic bidding (Pregão eletrônico) procurement system set forth in the FRB’s Law No. 10.520 of July 17, 2002.

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

4. Community Participation. Goods, works and services required for Part C.2 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. 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.

2. Selection Based on Consultants’ Qualifications. Services estimated to cost less than $200,000 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.

3. 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 paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. 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.