July 27, 2012

His Excellency
Mr. Guido Mantega
Minister of Finance
Ministry of Finance
Esplanada dos Ministérios, Bloco “P”-8º Andar
70648-900 Brasília, D.F.
Brazil

Re: Federative Republic of Brazil: Fostering Short Sea Shipping Project
SFLAC Grant No. TF010693

Excellency,

In response to the request for financial assistance made on behalf of the Federative Republic of Brazil (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”), acting as administrator of grant funds provided by Spain (“Donor”) under the Spanish Fund for Latin America and the Caribbean (SFLAC), proposes to extend to the Recipient a grant in an amount not to exceed three hundred thousand United States Dollars (US$300,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”).

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds. Accordingly, in the event that the Donor cancels or fails to pay any contributions under the trust fund to the World Bank for any reason, or that as a result of currency exchange variations the amount of funds available in the trust fund is insufficient for the purposes of the Grant, the Recipient shall bear the risk of such funding shortfall and the World Bank shall not have any liability whatsoever to the Recipient or to any third parties in respect of any expenditures or liabilities incurred by the Recipient or any third parties in connection with this Agreement which exceed the amount of funds made available to the World Bank by the Donor for the purposes of the Grant.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement pursuant to the letter from Comissão de Financiamento Externos COFIEX No 1308, dated March 13, 2012, and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. This Agreement shall become effective upon receipt by the World Bank of a countersigned original copy of this Agreement. Provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: Deborah L. Wetzel
Director
Brazil Country Management Unit
Latin America and the Caribbean Region

AGREED AS WITNESS BY:

FEDERATIVE REPUBLIC OF BRAZIL

By: Authorized Representative
Name: Fabiani Fadel Borin
Title: Attorney of the National Treasury
Date: August 3, 2012

PORT SECRETARIAT

By: Authorized Representative
Name: José Leônidas de Menezes Cristino
Title: Ministro de Estado- Sec. Portos
Date: August 9, 2012

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010
(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 (“Standard Conditions”) constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement and the additional terms have the following meaning:

(a) “Ministry of Finance” means Ministério da Fazenda, the Recipient’s Ministry of Finance or any successor or successors thereto acceptable to the World Bank.

(b) “Ministry of Transport” means Ministério dos Transportes, the Recipient’s Ministry of Transport or any successor or successors thereto acceptable to the World Bank.

(c) “Port Secretariat” means Secretaria de Portos, the Recipient’s Port Secretariat, or any successor thereto, acceptable to the World Bank.

(d) “Steering Committee” means the committee established for the purposes of this Project and referred to in Section 2.03 of this Agreement.

### Article II

**Project Execution**

2.01. **Project Objectives and Description.** The objective of the Project is to assist the Recipient in assessing its short sea shipping sector and to propose actions to promote short sea shipping, aimed at fostering this energy-efficient transportation mode and improving governance for logistics.

The Project consists of the following parts:

**Part 1: Diagnosis of Short Sea Shipping Sector**

Carrying out an analysis of the Recipient’s domestic short sea shipping sector including, *inter alia*: (a) a description of its regulatory, legal and organizational framework; (b) a description of services and traffics; (c) an assessment of the sector’s organization; and (d) the identification of existing port infrastructure.

**Part 2: Comparative Study of Supply Chains Involving Short Sea Shipping and Highway Transport**

Carrying out a comparative study of about three supply chains that use short sea shipping and/or highway transportation, including, *inter alia*: (a) the identification of key characteristics of said chains; (b) an analysis of their strengths and weaknesses; and (c) the identification of externalities associated to each said chain.
Part 3: Review of International Best Practices and Benchmarking

(a) Carrying out of an analysis of the short sea shipping sector in the European Union and the United States and other relevant short sea shipping cases.

(b) Carrying out of a study tour for officials of the Recipient to selected countries to share knowledge and best practices in the short sea shipping sector.

Part 4: Identification of Incentives to Short Sea Shipping

(a) Identification and proposal of regulatory measures to create incentives to foster short sea shipping.

(b) Development of public policy proposals aiming at increasing the availability of infrastructure for the short sea shipping sector in the port terminals.

(c) Gathering of available materials on short sea shipping and carrying out of an analysis of the Recipient’s short sea shipping framework, and therefore propose investments that may impact short sea shipping performance.

(d) Carrying out of a workshop with relevant stakeholders to discuss and obtain feedback on short sea shipping.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall, through the Port Secretariat, carry out the Project in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. Institutional and Other Arrangements.

The Recipient shall establish and thereafter maintain, until the completion of the Project, a committee (the “Steering Committee”) acceptable to the World Bank, comprising, inter alia, representatives of the Ministry of Transport and the Ministry of Finance to: (a) provide the Recipient with overall strategic and technical guidance during the implementation of Project activities; and (b) oversee progress in achieving the objectives of the Project.

2.04. Donor Visibility and Visit.

(a) Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.
2.05  **Project Monitoring, Reporting and Evaluation.**

(a) The Recipient shall, through the Port Secretariat, monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the performance indicator set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The performance indicator referred to above in paragraph (a) consists of the following: the Recipient has drafted regulation based on the public policy proposals developed under Part 4 (b) of the Project and said draft regulation has been submitted to the Steering Committee for review and has been included as part of the final study.

(c) The Recipient shall, through the Port Secretariat, prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than five months after the Closing Date.

2.06.  **Financial Management.**

(a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than one month after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07.  **Procurement**

(a) General. All consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services.

(b) The provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

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*Gabriela Bahn de A. Samia*  
Advogada da União  
SIAPE: 1742038
Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II, III, IV and V of the Consultant Guidelines.

(d) Particular Methods of Procurement of Consultants’ Services

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Quality Based Selection; (B) Fixed budget Selection; (C) Least Cost Selection; (D) Single-source Selection of consulting firms; (E) Selection of Individual Consultants; and (F) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise determine by notice to the Recipient, all contracts shall be subject to Prior Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient, though the Port Secretariat, may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance 100% of Eligible Expenditures consisting of Consultant's Services inclusive of Taxes.

3.02 Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03 Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2014.

Article IV
Recipient’s Representative; Addresses

4.01. Recipient’s Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.
4.02 **Recipient's Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministério da Fazenda  
Procuradoria Geral da Fazenda Nacional – PGFN  
Esplanada dos Ministérios, Bloco “P”- 8º Andar  
70048-900 Brasília, D.F - Brazil  
Facsimile: (55-61) 3412-1740

With a copy to:

SEAIN - Secretaria de Assuntos Internacionais do  
Ministério do Planejamento, Orçamento e Gestão  
Esplanada dos Ministérios - Bloco K - 5º andar  
70040-906 Brasilia, DF - Brazil  
Facsimile: (55-61) 2020-5006

Secretaria de Portos  
SCN Quadra 04 Bloco B  
Pétala C - Mezanino - Sala 1403  
Centro Empresarial VARIG  
70714-900 Brasilia – DF - Brazil  
Facsimile: (55-61)-3326-3025

4.03 **World Bank's Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INTBAFRAD  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391

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*Gabriela Batini de A. Samia*  
Advogada da União  
SIAPE: 1742038