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MAY 29 1992



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

Mr. Armeane Choksi  
Director, Country Department LA1  
International Bank for Reconstruction  
and Development  
1818 H St., N.W.  
Washington, D.C. 20433

Assistant  
Administrator  
for Latin America  
and the Caribbean

Grant Agreement Number: 598-0784-G-00-2-019-00

Dear Mr. Choksi:

1. I have the honor to refer to the effort by the International Bank for Reconstruction and Development (the "IBRD"), the Government of Brazil and the Commission of the European Communities (the "CEC") to maximize the environmental benefits of Brazil's rain forests through the Pilot Program to Conserve the Brazilian Rain Forest (the "Pilot Program").
2. Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the United States of America, acting through the Agency for International Development ("A.I.D." or the "Grantor"), hereby grants to the IBRD (the "Grantee"), as part of the commitment of the United States to support the Pilot Program, the sum of Three Million United States Dollars (\$3,000,000) (the "Grant") to be deposited into the Rain Forest Trust Fund (the "Trust Fund") established by the IBRD pursuant to Resolution No. IBRD 92-45, effective March 24, 1992. The Trust Fund was established for the purpose of making grants for projects under the Pilot Program. A copy of the resolution establishing the Trust Fund is attached hereto as Attachment A and made a part hereof.
3. This Grant is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Grantee in support of the activities described in Attachment B hereto from the date of this letter through September 30, 1995. Funds disbursed by A.I.D. but uncommitted by the Grantee at the expiration of this period shall be refunded to A.I.D.
4. The total amount of the Grant to the IBRD under this Letter Grant Agreement (hereinafter, the "Agreement"), is Three Million United States Dollars (\$3,000,000), which sum is hereby obligated.

5. The IBRD and A.I.D. agree that this Grant and the Trust Fund shall be administered by the IBRD in accordance with (1) the established policies and procedures of the IBRD, (2) the policies and procedures governing the Trust Fund and (3) this Agreement and all attachments hereto. It is further understood that financial records, including documentation to support entries on accounting records and to substantiate charges against the Grant, shall be maintained in accordance with the Grantee's usual accounting procedures, which shall follow generally accepted accounting practices. All such financial records shall be maintained for at least three (3) years after final disbursement of funds under this Grant.

6. The IBRD agrees to furnish to A.I.D. its financial statements on the activities financed by the Trust Fund and such other information on the status and execution of activities financed by the Trust Fund as may reasonably be requested by A.I.D.

7. The IBRD hereby assures A.I.D. that the Grant funds will be used only as required for the purposes described in Attachments A and B hereto to be financed by the Trust Fund.

8. The Grantee shall prepare and submit to A.I.D. the required financial and technical reports in accordance with the provisions set forth in Attachments A, B and C hereto.

This Grant is made to the Grantee on condition that the funds will be administered in accordance with the terms and conditions as set forth in this Agreement and in Attachment A (Resolution No. IBKD 92-45), Attachment B (Project Description) and Attachment C (Standard Provisions) hereto, all of which attachments are incorporated into and made a part of this Agreement. All of the Standard Provisions in Attachment C hereto are applicable to this Agreement except as follows:

- a. The following language in section 2.a. (entitled "Refunds") shall not be applicable: "... and shall remit to AID all interest earned on funds provided by AID."
- b. Standard Provision Number 10, entitled "Audit and Records (Standard)," shall be the audit and records provision applicable to this Agreement.
- c. Payment shall be made as provided in this Agreement and in Attachment B hereto, and not as provided in any Standard Provisions numbered 11.

Please indicate your acceptance of this Grant and the terms of this Agreement by signing this original and six (6) copies in the space provided below, returning the original and four (4) copies to:

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Chief, Environment, Energy, and Science Staff  
LAC/DR/E, Room 2242 N.S.  
Agency for International Development  
Washington, D.C. 20523-0010.

You may retain two (2) copies for your files. James Hester, Chief of the Office of Environment, Energy and Sciences, LAC/DR, Room 2242 N.S., Washington D.C. 20523-0010, will serve as technical officer for the Grant.

Upon your acceptance of this Grant, the necessary steps shall be taken to provide your organization with the total amount of the Grant.

Sincerely,

THE UNITED STATES OF AMERICA

BY: James H. Michel

James H. Michel  
Assistant Administrator for  
Latin America and the Caribbean  
United States Agency  
for International Development

Attachments:

- A. Resolution No. IBRD 92-45
- B. Project Description
- C. Standard Provisions

ACCEPTED:

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

BY: Allen C. Cohen  
Director, Country Department LA1

DATE: 1/27/52

## International Bank for Reconstruction and Development

FOR OFFICIAL USE ONLY

R92-45

FROM: The President

March 13, 1992

PILOT PROGRAM TO CONSERVE THE BRAZILIAN RAIN FOREST

1. Attached for your consideration is a Resolution establishing the Rain Forest Trust Fund (RFT) and authorizing the Bank to act as Trustee for the RFT. Also attached, as background information, is a note entitled "Establishment of the Rain Forest Trust Fund" which specifies the institutional arrangements which will govern the Pilot Program to Conserve the Brazilian Rain Forest and the RFT.
2. In the absence of objection, to be communicated to the Vice President and Secretary or Deputy Secretary by close of business on March 24, 1992, the Resolution will be deemed approved, to be so recorded in the minutes of a subsequent meeting of the Executive Directors.
3. Questions on the Resolution or on the background institutional note may be referred to Ms. Phyllis Pomerantz, Ext. 31901 or Mr. Robert Kaplan, Ext. 39085.

Distribution

Executive Directors and Alternates  
Office of the President  
Executive Vice Presidents, IFC and MIGA  
Vice Presidents, Bank, IFC and MIGA  
Directors and Department Heads, Bank, IFC and MIGA

## INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Resolution No. IBRD 92 - 45ESTABLISHMENT OF THE RAIN FOREST TRUST FUND

## WHEREAS:

- (A) the Government of Brazil, with the assistance of the International Bank for Reconstruction and Development (the Bank) and the Commission of the European Communities (CEC), has prepared a pilot program with the overall objective of maximizing the environmental benefits of Brazil's rain forests (the Pilot Program) in a manner consistent with its developmental goals through the implementation of a sustainable development approach that will contribute to a continuing reduction of the rate of deforestation;
- (B) the donors listed in Annex A to this Resolution (the Donors) have agreed to provide funds to assist in carrying out the Pilot Program as set forth in this Resolution and have requested the Bank to administer such funds;
- (C) the Bank is prepared to establish and administer the Rain Forest Trust Fund on the terms and conditions set forth in this Resolution; and
- (D) certain of the Donors have also indicated their intention to provide additional funds through co-financing or other forms of association with the Rain Forest Trust Fund, under separate arrangements to be entered into between the Bank and such Donors;

NOW THEREFORE, it is hereby resolved as follows:

A. The Rain Forest Trust Fund

1. There is hereby established by the Bank a Rain Forest Trust Fund (RFT) constituted by the funds which shall from time to time be contributed in accordance with the provisions of this Resolution, and any other assets and receipts of the RFT. The Bank, acting as Trustee (when acting in such capacity hereinafter referred to as the Trustee), shall hold these funds, assets, and receipts in trust and manage and use them only for the purpose of, and in accordance with, the provisions of this Resolution, keeping them separate and apart from all other accounts and assets of, or administered by, the Bank. The Bank shall exercise the same care in the discharge of its functions under this Resolution as it exercises with respect to its own affairs and will have no further liability in respect thereof.

2. Contributions to the RFT may be made pursuant to the provisions of paragraph 3 of this Resolution:

- (a) by each Donor listed in Annex A, for a contribution in the amount of its own currency or in any other freely convertible currency specified in Annex A;

- (b) by other donors, not listed in Annex A in freely convertible currencies specified in their notification to the Trustee; and
  - (c) by any Donor, in any additional amount in freely convertible currencies specified in a notification to the Trustee.
3. Payment of each contribution into the RFT shall be made as follows:
- (a) Payment shall be made in the form of cash, non-interest bearing notes, or other equivalent obligations of the Donor payable on demand or as set forth in 3(b)(ii) and to the order of the Bank as Trustee of the RFT, and deposited in the depository of the Bank in the Donor-country concerned.
  - (b) Payment of the full amount of each contribution shall be made:
    - (i) within thirty (30) days of the date of this Resolution; or
    - (ii) alternatively, in one note representing the total contribution of a donor, subject to the agreement of the Trustee, to be encashed in fixed equal installments over three years, such encashment to be made at the beginning of each of the fiscal years of the Trustee starting from July 1, 1992 except that the Trustee may agree with a Donor to different encashment schedules.
  - (c) The Trustee shall draw on the cash, notes, or other obligations provided under paragraph 3(a) of this Resolution on an approximately pro rata basis in accordance with the Bank's normal procedures in order to meet disbursements and to maintain a reasonable working balance in the RFT.
  - (d) The currencies in the RFT may be exchanged to other freely convertible currencies by the Bank, as Trustee, to facilitate their investment, disbursement and maintenance of value in terms of United States dollars.

B. Operations under the RFT

4. All amounts credited to the RFT shall be used by the Trustee exclusively for the purpose of (i) making grants (RFT Grants) to Brazil and any other recipients for projects included in the Pilot Program; and (ii) other activities promoting the purposes of the RFT.
5. (a) Each RFT Grant shall be made for the purpose of financing a project or program consistent with the objectives of the Pilot Program which shall have been appraised, approved and administered in accordance with procedures and practices of the Bank or which are otherwise acceptable to the Bank.
- (b) Each RFT Grant shall be evidenced by a separate agreement between the recipient and the Bank, as Trustee of the RFT, indicating in particular that the resources have been provided from the RFT.
- (c) Each RFT Grant shall be denominated in dollars in the currency of the United States.
- (d) Except as the Trustee shall otherwise agree, procurement of goods, works, and services for any RFT Grant shall be in accordance with the Bank's normal practices, procedures, and eligibility requirements.

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6. The Trustee shall not be obligated to make any payment under any agreement referred to under paragraph 5(b) except to the extent it shall have received funds from the Donors as provided in paragraph 3 above.

C. Administration of the RFT

7. The Trustee shall establish and maintain appropriate records and accounts to identify the contributions to the RFT, the commitments to be financed out of the RFT, and the receipts and disbursement of funds in the RFT. Pending disbursement of RFT Grants, the Bank may invest the funds held in the RFT in such form, including pooled investments with other funds administered by the Bank, as the Bank may decide. The income from such investments shall be credited to the RFT and the Bank shall be reimbursed annually from the resources of the RFT for the reasonable expenses incurred by it in the establishment and administration of the RFT. The reimbursement will be made on the basis of estimated cost, subject to the end of year adjustment.

D. Organizational Arrangements, Reports and Consultations

8. The Trustee of the RFT shall convene annually a meeting of the Donors to the RFT and Brazil for the purpose, inter alia, to review the overall policy framework governing the Pilot Program, and to consider the progress made in the preparation and implementation of projects under the Pilot Program. For the purposes of this annual meeting, the Trustee shall prepare a progress report on preparation, appraisal, and implementation of projects during the twelve-month period prior to each such meeting. The Trustee shall also liaise with the international advisory group to be established to review individual projects under the Pilot Program and to prepare a report to the Donors. Such annual meetings shall be held on the basis of procedures agreed among the Donors, Brazil, and the Trustee.

9. Until all the funds in the RFT shall have been committed, the Trustee shall, as soon as practicable after the end of each fiscal year of the Bank, furnish to the Donors and Brazil a detailed financial statement of the RFT, together with an opinion of the Bank's own external auditors on such statement. After the funds in the RFT have been fully disbursed, the Trustee shall as soon as practicable furnish to the Donors and Brazil a detailed report on the operations financed from the RFT.

E. Notification; Commencement of Operations

10. Each Donor desiring to make a contribution shall deposit with the Bank, as Trustee, a formal notification in form and substance satisfactory to the Bank, whereby the Donor shall obligate itself to make a contribution to the RFT on the terms and conditions set forth in this Resolution. Operations under the RFT shall be commenced by the Trustee on the date of adoption of this Resolution by the Executive Directors of the Bank.

F. Co-financing Arrangements

11. The Trustee is hereby authorized to enter into Co-financing Arrangements with the Donors and any other countries or entities wishing to provide funds to assist in carrying out the objectives of the Pilot Program. Co-financing arrangements between the Trustee and Donors and other countries shall include the following terms and conditions:

- (a) the Donor or country concerned shall agree that its funding shall be used in support of the objectives of the Pilot Program;

- (b) except as the Trustee shall otherwise agree, such funds may be used by Brazil or other recipients for goods produced in, or services supplied from, member countries of the Bank and Switzerland;
- (c) such funds shall be provided on a grant basis or on highly concessional terms;
- (d) all projects eligible for financing shall be appraised following the Bank's standard project evaluation methodologies; and
- (e) such funds shall be normally utilized to support projects which are to be partially funded from the RFT.

G. Termination

12. The functions of the Bank, as Trustee, shall terminate upon a decision to that effect by the Executive Directors of the Bank. Upon such decision by the Executive Directors, the Bank shall take all action necessary for winding up its activities as Trustee of the RFT in an expeditious and orderly manner, in accordance with such decision. The RFT shall be terminated accordingly and any uncommitted funds shall be disposed of by agreement between the Donors and the Trustee.

H. Amendment

13. The Bank may amend the provisions of the Resolution after consultation with the Donors and Brazil.

Amounts to be Contributed to the  
Rain Forest Trust Fund

<u>DONOR</u>	<u>NATIONAL CURRENCY</u>	<u>U.S. DOLLAR EQUIVALENT</u>	
Canada	1,000,000	848,716	1/
Germany	32,000,000	19,538,405	2/
Italy	6,500,000,000	5,297,214	3/
Japan	710,000,000	5,491,955	4/
United Kingdom		2,500,000	
United States	5,000,000	5,000,000	
Commission of the European Communities (CEC)	n/a	<u>15,000,000</u>	
TOTAL		53,676,290	

1/ Calculated on March 2, 1992 at the exchange rate of:  
US\$1.00 = Can\$1.17825.

2/ Calculated on March 2, 1992 at the exchange rate of:  
US\$1.00 = Dm1.6378.

Germany has pledged an additional Dm3,001,610 (about  
US\$1.8 million equivalent) to be administered by the  
World Bank for project preparation activities.

3/ Calculated on March 2, 1992 at the exchange rate of:  
US\$1.00 = L1227.06.

4/ Calculated on March 2, 1992 at the exchange rate of:  
US\$1.00 = Y129.28.

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PILOT PROGRAM TO CONSERVE THE BRAZILIAN RAIN FOREST  
ESTABLISHMENT OF THE RAIN FOREST TRUST FUND  
BACKGROUND NOTE

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Washington, D.C.  
March 13, 1992

## I. INTRODUCTION AND OBJECTIVES

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1. The Pilot Program to Conserve the Brazilian Rain Forest is a comprehensive effort by the Government of Brazil and the Brazilian people with the financial and technical support of the international community. The overall objective of the pilot program is to maximize the environmental benefits of Brazil's rain forests consistent with Brazil's development goals, through the implementation of a sustainable development approach that will contribute to a continuing reduction of the rate of deforestation. The attainment of this objective will: (i) demonstrate the feasibility of harmonizing economic and environmental objectives in tropical rain forests; (ii) help preserve the huge genetic resources of the rain forests; (iii) reduce the Brazilian rain forests' contribution to global carbon emissions; and (iv) provide another example of cooperation between developed and developing countries on global environmental issues. Preservation of biodiversity, reduction in carbon emissions, and new knowledge about sustainable activities in tropical rain forests represent benefits that are global in scope and justify financial and technical transfers from the international community to Brazil.

2. The pilot program is designed to address three critical elements:

- o The present largely positive direction of the environmental policy of the current federal government administration in Brazil must be consolidated at the federal level between the administration and Congress, and it must be reinforced at the state and local levels. This implies that pricing, fiscal and investment policies at federal, state and local levels would be consistent with environmental objectives. Policy in Brazil is the outcome of complex interactions among the executive and the legislature at the federal level, and among and between the federal, state and local administrators and political representatives. Public opinion, a growing number of organized interest and

consumer groups, and a sophisticated press are also important factors in Brazil's open political system. Improved public understanding of the benefits and the costs of rain forest protection and increasing accountability of public institutions on environmental matters are critical to consolidation of a sound policy on rain forest issues.

- o Relatively weak state and local as well as federal institutions that are responsible for enforcing environmental laws require strengthening in terms of management, technical skills, and adequate equipment and other infrastructure.
- o Continuing investments in natural and social science research and field applications are needed: (i) to ensure that the economic benefits of genetic biodiversity in Brazil's rain forests can be realized, and (ii) to provide a basis for the development and dissemination of sustainable approaches to economic exploitation of the forests.

3. The cost of this phase of the pilot program over the next three years, including a preliminary preparatory stage, is estimated at about US\$250 million. By agreement among the rain forest pilot program participants, the pilot program may be extended beyond this three year period.

4. **Background.** Work to prepare a comprehensive pilot program resulted from a request to the Government of Brazil, the World Bank and the Commission of the European Communities (CEC) by the heads of state of the Group of Seven (G-7) countries at their summit meetings in Houston in July 1990. Following the request of the G-7, the Government of Brazil worked together with the World Bank and the CEC in a program preparation process that included three high-level meetings and three technical missions in the field.

5. As a result of this effort, the Government of Brazil submitted a program proposal to the G-7 heads of state for their consideration at their summit meetings in London in July 1991. The management of the World Bank and the staff of the CEC prepared a cover note to the Brazilian proposal, in which they endorsed the objectives of the program and supported the establishment of a trust fund to carry out activities to support the objectives of the program. At their summit meetings in London, the G-7 heads of state considered the document prepared by the Government of Brazil and the cover note from the World Bank and the CEC, renewed their commitment to support a pilot program, and called for further urgent work to enable program implementation to begin. Following the London Summit, the World Bank hosted the Government of Brazil and the CEC at meetings in Washington at which the three parties agreed to a work program that included the preparation of an earlier version of this document which was distributed to potential contributing countries prior to a meeting of the rain forest pilot program participants held in Geneva in December 1991. During the Geneva meeting, representatives of the G-7 and other industrialized countries endorsed the objectives and operational modalities proposed to implement the pilot program, and pledged financial support to the program. This document represents the understandings and agreements of the rain forest pilot program participants, and will form the basis for the establishment of the Rain Forest Trust Fund (RFT) and implementation arrangements for the pilot program.

6. The rain forest pilot program participants (including the Government of Brazil and all donors to the program) view the pilot program in the context of other international efforts to protect the global environment. The pilot program will be implemented outside of the Global Environment Facility (GEF), but in close coordination with other related environmental activities of the World Bank, including those carried out under the GEF. The GEF and the rain forest pilot program will benefit from sharing of lessons, particularly between the pilot program and efforts financed from the GET to protect global biodiversity and to limit emissions of greenhouse gases.

7. The pilot program will be financed from the RFT and associated cofinancing. Such an

arrangement will preserve the program's multilateral character, facilitate the allocation of new and additional resources to the program, and ensure its integrated and comprehensive nature. It will also facilitate the integration of related projects currently under preparation for financing through bilateral arrangements.

8. Section II of this document describes the operational modalities of the pilot program, including an identification of the international agencies that will participate in the program, and a description of the project cycle for projects to be supported under the program. Section III addresses the organization and governance arrangements, including the respective roles of the international agencies, arrangements for monitoring and reporting, the role of non-governmental organizations (NGOs), and organizational and governance arrangements in Brazil. Section IV discusses the modalities for contributions to the program, including cofinancing arrangements. Finally, Section V outlines the terms on which financing will be provided to carry out the program.

## II. OPERATIONAL MODALITIES

9. The pilot program for the protection of Brazil's tropical rain forests is an experimental program that seeks to test application of a comprehensive approach to protecting the largest tropical rain forest in the world. To carry out this approach successfully, a number of requirements must be met. The Government of Brazil will require financial and technical assistance to prepare the projects under the sub-programs that have been identified during the past year. Once projects are fully prepared, they must be appraised, employing up-to-date methods of project appraisal in several different sectors of the economy. Approved projects must be supervised, relying on an agile monitoring system that provides rapid feedback to project decision-makers to allow them to make timely adjustments to project design. Finally, projects must be evaluated continuously in order to extract and disseminate the lessons that may be applied in subsequent efforts in Brazil and in other programs in tropical rain forests.

10. The World Bank has the experience and much of the expertise necessary to assist in the management of these tasks. Given the importance that the rain forest pilot program participants place on broad dissemination of the lessons learned from the program, however, broader international participation in the projects is desired in order to increase the program's global benefits. While the World Bank will serve as the Trustee of the RFT to be established to finance the pilot program (see Section IV for a full discussion of funding modalities), and the World Bank will assist the relevant Brazilian authorities in the preparation of the proposed projects and will appraise and supervise them, the World Bank will invite the CEC and technical agencies of other rain forest pilot program participants in these tasks.

11. In order to ensure that the rain forest pilot program participants benefit from lessons learned from the program, all projects will be integrated into a single monitoring and evaluation system. In light of the special characteristics of the CEC, which allow that institution to draw easily on the know-how of its own General Directorates and the

technical agencies of CEC member governments, the CEC was responsible for developing this monitoring and evaluation system with the Government of Brazil and the World Bank. After consultation with the technical working committee (para. 35), the design of the monitoring and evaluation system will be finalized. The coordinating office to be placed in the World Bank (para. 38) will be responsible for overseeing the implementation of the monitoring and evaluation system.

12. The resident mission in Brazil of the UNDP, with its extensive environmental and institution building programs, is well placed to identify related efforts of both governmental and non-governmental organizations, and to assist the government in bringing these efforts to bear on the objectives of the pilot program. In view of the resident mission's unique position, UNDP will assist NGOs and executing agencies in taking the NGOs' perspectives into account in project preparation and implementation. Resources may also be allocated from the RFT, to be administered by UNDP, to assist NGOs with small grants for activities consistent with the objectives and lines of action of the pilot program. Finally, the UNDP resident mission could sign an umbrella agreement with the government, within the existing modality of nationally executed projects for technical cooperation, to assist the Brazilian institutions in performing their roles in the implementation, monitoring and evaluation of the pilot program.

13. The Brazilian government has identified projects to be carried out under the pilot program over the next three years. One of the factors that contributed to the selection of the proposed projects was their complementarity with other actions and programs planned or underway. Such programs include projects for which Brazil has committed its own resources or has borrowed from the World Bank, the Inter-American Development Bank (IDB), or other sources. Other programs are being carried out with bilateral assistance from other governments, including the rain forest pilot program participants. The pilot program will build

on these experiences and provide a framework for closer coordination of donors' contributions in the future. The pilot program will also seek to tap the potential of the private sector to contribute to the program's objectives.

14. Learning from the experience of past administrations, the Government of Brazil recognizes the effects that national and local development policies may have on the environment in general, and on tropical rain forests in particular. All projects under the pilot program are consistent with and supported by the current governmental policy and institutional framework, and the rain forest pilot program participants will receive periodic updates on policies affecting the potential success of the pilot program.

15. A well-tuned coordination system will be established, through which efforts will be made early in the project cycle to determine the mixture of sources of financing (core RFT funds and associated cofinancing) for each project. Regardless of the mix of financiers, the World Bank will ensure coordination throughout all stages of the project cycle, and invite cofinanciers to participate in joint preparation and appraisal missions as agreed on a case-by-case basis.

### The Project Cycle

16. Identification. Projects to be carried out over the next three years were identified by the Government of Brazil in cooperation with the World Bank and the CEC for their contribution to the overall objectives of the pilot program. In the event that rain forest pilot program participants and the World Bank determine that additional projects should be identified, the World Bank would request interested pilot program participants to participate in one or more identification missions. The Government of Brazil supports the objectives of each of the projects identified so far, but, given competing demands on scarce resources, the government cannot cover all of the projects' costs. The presence of substantial global externalities justifies the transfer of resources from the international community to Brazil to carry out the program. Recognizing its own important place in the international community, and the expected benefits of the program to Brazil, however, the Government of Brazil is prepared to commit a

limited amount of its own resources (aggregating to about 10 percent) as counterpart funds to support program implementation. The exact amount of counterpart funding may vary by project. The form and size of this contribution is discussed in Section V -- Financing Terms.

17. Preparation. Several of the projects proposed for financing over the next three years will require substantial pre-investment work to identify appropriate methodologies and technologies that will be adapted and tested in the Brazilian rain forests. The pilot program will finance these pre-investment studies, and assist the government in bringing technical expertise from Brazil and around the world to bear on the design of the proposed projects. Brazilian and non-Brazilian non-governmental organizations (NGOs) will also assist in identifying methodologies and technologies to be tested under the pilot program and, once projects have been approved for implementation, in carrying them out.

18. In some cases, the rain forest pilot program participants have already entered into discussions with Brazilian government officials regarding possible bilateral funding for projects in the Brazilian rain forests. Projects that are consistent with the objectives, strategy, and implementing arrangements of the pilot program would be carried out within the framework of the pilot program. To this end, donors will provide the World Bank with detailed technical and financial information regarding any projects they wish to propose for inclusion in the pilot program. The World Bank will then review these projects and determine whether, and, if so, under what conditions they could be included in the pilot program. Further steps to prepare these projects would be carried out in the same manner as other projects under the pilot program.

19. The rain forest pilot program participants may take a special interest in one or more of the projects to be supported under the program and could make their own technical expertise available to the Brazilian executing agencies that are preparing the project. The World Bank will facilitate such arrangements whenever possible.

20. Early in the preparation process, each project will be reviewed by one external reviewer selected from the International Advisory Group

(discussed below under "monitoring and evaluation"), and one peer reviewer from the World Bank. These reviewers will review independently the Initial Executive Project Summary (IEPS) and submit separate reports to the Brazilian agency responsible for project preparation and to the World Bank. The World Bank will provide the reports of the peer reviewers to the project's possible cofinanciers. In preparing the project, the Brazilian agency and the World Bank will take the comments of the peer reviewers, as well as those of the cofinancier, into account. The reports of the peer reviewers will also be made available for review by the rain forest pilot program participants at their annual meetings.

21. Appraisal. All projects, regardless of the mixture of funding sources, will be appraised following standard project evaluation methodology of the World Bank. Where one or more cofinanciers will provide direct funding for a project, the World Bank will invite them to provide staff to participate in the appraisal team, or to carry out a joint appraisal with the World Bank. In the event of a joint appraisal, the appraisal team would also take into account the appraisal regulations of the participating cofinanciers in order to ensure that the cofinanciers have the requisite information for cofinancing approval.

22. With regard to the bilateral projects determined appropriate for inclusion in the pilot program (per para. 18), the following procedures will apply. For those projects that have already been appraised by the donor country, the World Bank will carry out a rapid post-appraisal in order to ensure the consistency of project design, including overall strategy, policies, technical standards and implementing arrangements (including arrangements for monitoring and evaluation), with the pilot program as a whole, and to ensure the integrity of the pilot program as a cohesive and comprehensive effort. For those projects that have not yet been appraised by the donor country, the World Bank and the donor country will conduct a joint appraisal as described in paragraph 21, above.

23. Prior to the departure of the appraisal mission for each specific project, the external and peer reviewers who reviewed that project earlier in the process will be asked to comment on the project once again, highlighting any issues that

require special attention from the appraisal mission. The World Bank task manager will take the comments into account when appraising the project.

24. Monitoring and evaluation procedures for each project will need to be consistent with and integrated into the monitoring and evaluation systems established for the program as a whole. To this end, the appraisal mission will ensure that appropriate monitoring and evaluation procedures are in place.

25. Approval. All projects under the pilot program, with the exception of specific activities financed from a possible transfer to UNDP discussed in paragraph 12, will be subject to approval by the World Bank. In accordance with paragraph 49, below, cofinanciers would retain the ultimate decision regarding the provision of bilateral funding for each project. At such time as a transfer to UNDP is to be made, the relevant procedures would be established.

26. The Government of Brazil will review its internal approval procedures and mechanisms with the objective of securing expeditious approval for any bilateral cofinancing that is part of the pilot program.

27. Implementation. Brazilian executing agencies will have the primary responsibility for implementing each project. The executing agency may be a federal or state agency, or a private sector (non-profit or for-profit) entity acting under contract with the government. Use of RFT funds will be governed by the rules of the World Bank. Disbursements from cofinanciers will be made in the manner agreed among the government, the World Bank and the cofinanciers.

28. The World Bank will supervise all projects, inviting cofinanciers to participate on supervision missions. The World Bank will make available at the annual meetings summaries of all supervision reports.

29. Monitoring and Evaluation. In view of the experimental nature of the pilot program, rapid feedback on implementation experience and the drawing of lessons from that experience that may be applicable in other contexts are crucial. Detailed monitoring arrangements will be defined during the course of preparation and appraisal of

each project. The Brazilian coordinating unit responsible for overall coordination of the program will operate the monitoring system. The World Bank will report annually to the rain forest pilot program participants the latest information available from the monitoring and evaluation system.

30. An International Advisory Group will be appointed to review periodically progress in implementing the pilot program and provide a technical opinion on program impact to the rain forest pilot program participants. To carry out its task, the International Advisory Group will review the rain forest pilot program in Brazil each year and prepare a report to be distributed at the annual meetings of the rain forest pilot program participants. In addition, individual experts from the International Advisory Group will be asked to review and prepare written reports on specific projects early in the preparation process and again prior to appraisal (see paras. 20 and 23). Finally, the World Bank, in collaboration with one or more of the rain forest pilot program participants, will publish technical notes prepared by experts involved in program implementation or members of the International Advisory Group, and sponsor occasional seminars to discuss technical issues encountered in implementing the pilot program.

31. The rain forest pilot program participants will nominate experts, on the basis of their scientific and technical qualifications, to the International Advisory Group. On the basis of these nominations, and taking into account the need for a broad range of international expertise, the World Bank will make a proposal to the pilot program participants regarding the size and composition of the International Advisory Group. During their annual meetings, the rain forest pilot program participants will review and ratify the composition of the International Advisory Group.

### III. ORGANIZATIONAL ARRANGEMENTS AND GOVERNANCE

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32. The terms and conditions for use of RFT core funds and associated cofinancing as recommended at the outset by the rain forest pilot program participants will be proposed for inclusion in the RFT resolution for adoption by the World Bank's Executive Directors. Rain forest pilot program participants will meet annually at a meeting to be convened by the World Bank. The meetings, which will be held under the chairmanship of the World Bank, will constitute the appropriate forum for the rain forest pilot program participants to: (i) review the application of the terms and conditions to consider whether any changes should be made; (ii) discuss the overall policies governing the pilot program and the RFT; (iii) consider the progress made in preparing and implementing the several projects; and (iv) review experience to date, including the policy framework under which the pilot program is being implemented, and any lessons that emerge. The World Bank will prepare the agenda and submit reports on the above topics to the rain forest pilot program participants. The UNDP, as an implementing agency, will be invited to attend the meetings, as may other institutions having an interest and expertise in the program. The chairman of the International Advisory Group will also be invited to attend the meetings and to report to the rain forest pilot program participants.

#### Inter-agency Collaboration

33. There has been a long history of bilateral and multilateral agencies' cooperation with the regular work program of the World Bank. Technical contacts on environmental initiatives are frequent between the World Bank and other multilateral agencies, including the Inter-american Development Bank, UNDP, UNEP and FAO. The World Bank has framework cofinancing agreements with many of the rain forest pilot program participants, and the procedures for cofinancing are flexible and well understood. The World Bank has an established relationship with the CEC, including in the environment program of the Mediterranean

Environmental Technical Assistance Program (METAP), and, over the past year, the World Bank and the CEC have enjoyed a productive and collegial relationship in working together with the Brazilian government to prepare the proposed pilot program. The World Bank has also come to rely more frequently on the experience and expertise of specialized non-governmental organizations (NGOs) to assist World Bank borrowers in the design and implementation of investment and technical assistance operations. Governance of the GEF and associated cofinancing has increased World Bank cooperation with NGOs and with the UNDP and UNEP.

#### Overall Monitoring and Reporting

34. Rain forest pilot program participants agree that one formal meeting each year is an appropriate vehicle for them to keep up-to-date on program implementation and to recommend any adjustments. The meetings will provide an opportunity for rain forest pilot program participants to discuss progress of the several projects individually and as a whole. The meetings will also provide a forum for discussing the technical reports of the International Advisory Group, for understanding related policy developments in Brazil, and for ensuring coordination of bilateral assistance programs in this area. The World Bank will prepare a progress report on preparation, appraisal, and implementation of the projects in the pilot program, and will provide this report, and the reports prepared by the external and peer reviewers, to the rain forest pilot program participants prior to the annual meetings. Once projects enter the implementation stage, supervision results from the preceding period, as well as monitoring and evaluation data, will be summarized and presented to the rain forest pilot program participants for discussion. In this context, the meetings will also serve an essential function of disseminating the lessons learned in designing and implementing activities to protect tropical rain forests.

35. In addition to the annual meetings, as required, the World Bank will convene a technical working committee comprised of technical staff representing rain forest pilot program participants. During these meetings, the World Bank would solicit views on technical issues related to the pilot program, and would seek to resolve any pending issues with respect to technical collaboration among the participants within the context of specific projects.

#### Proposed Coordination Between the Pilot Program and Other Efforts

36. Several new projects to be implemented over the next three years will complement other planned or on-going actions or programs, including those of the World Bank and the Inter-American Development Bank. The rain forest pilot program participants have had an opportunity to review data collected by the World Bank and the CEC in consultation with the Government of Brazil on major related efforts in Brazil funded from multilateral, bilateral and major international NGO sources. The World Bank will maintain this data base and will expand its scope to include new efforts as they emerge. A report based on this data will be presented to the rain forest pilot program participants annually. Multilateral institutions and the rain forest pilot program participants will develop their own bilateral assistance programs fully informed of the efforts to be supported under the pilot program and from other sources.

#### World Bank Procedures

37. The World Bank will apply its established procedures in preparing and processing projects. Cofinancing arrangements will be tailored to individual circumstances, but could involve either joint or parallel cofinancing. In order to ensure the overall consistency of the pilot program, the World Bank will lead the appraisal of all projects, regardless of the source of funding (paras. 21 and 22).

38. Projects will be approved by the World Bank. Responsibility for assisting the Government of Brazil to prepare the projects, and for appraising the projects once they are fully prepared, will lie

with the Country Department in the LAC Region that is responsible for the World Bank's operations in Brazil. All projects must meet World Bank appraisal criteria. The department will establish a coordinating office with the necessary staff and budget to: (i) assist the Brazilian executing agencies to prepare projects; (ii) carry out project appraisals; (iii) supervise and coordinate implementation of the individual projects and the pilot program as a whole; and (iv) ensure that the annual meetings of the rain forest pilot program participants are adequately prepared.

#### Non-Governmental Organizations (NGOs)

39. Brazilian and non-Brazilian NGOs active in Brazil's tropical rain forests have amassed considerable experience and knowledge regarding the technical and socio-economic constraints to protection of tropical forests. The rain forest pilot program participants expect the pilot program to benefit from NGOs' experience and for NGOs to play an active role in preparing and implementing projects. In addition, NGOs may have access to small grants to be administered by UNDP for activities consistent with the objectives and lines of action of the pilot program (para. 12). Finally, the resident UNDP mission will periodically convoke relevant NGOs to obtain their views, and to inform them of relevant developments.

#### Arrangements in Brazil

40. A Brazilian commission, comprised of representatives of concerned federal agencies, will meet under the chairmanship of the Secretariat for the Environment (SEMAM) in order to coordinate and review program implementation and to address any difficulties that may arise. The commission will consult regularly with representatives of state governments and NGOs. The commission, in consultation with the World Bank and cofinanciers, will define the specific financing arrangements for each project. It will also oversee the flow of funds from the RFT or from cofinanciers to executing agencies, and ensure availability of federal government counterpart funds, when appropriate. It will be responsible for the operation of the monitoring and evaluation system and for preparing monitoring and evaluation reports to be submitted

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to the World Bank, the substance of which will be shared with the rain forest pilot program participants at their annual meetings. The commission shall establish a technical secretariat to perform the necessary executive functions.

41. The preparation and implementation of projects and other related activities within the scope of the program shall be carried out with the participation of representatives of federal, state and local governments, as well as NGOs.

42. Funds for program implementation will be disbursed from the RFT or associated cofinancing as described in Section IV -- Funding Modalities. Within Brazil, these funds will be credited to executing agencies under terms and conditions, and following procedures to be agreed with the World Bank.

#### IV. SIZE OF THE RAIN FOREST TRUST FUND AND ITS FUNDING MODALITIES

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43. The rain forest pilot program is expected to cost at least US\$250 million over the next three years. The pilot program will be financed by contributions to the RFT core fund as well as associated cofinancing. The size of the core fund should reflect an appropriate balance between its pilot and experimental nature and the need to have enough resources to constitute a credible basis from which to provide coordination and dialogue with rain forest pilot program participants. Rain forest pilot program participants, therefore, recommend an RFT core fund of at least US\$50 million (representing approximately 20% of the expected costs over the next three years), with the remainder provided in the form of associated cofinancing. Rain forest pilot program participants also agree that broad multilateral participation on a voluntary basis rather than formal burden sharing is an acceptable basis for initiating the RFT.
44. Agreed contributions to the RFT core are shown in Table 1. All contributions to the RFT core will be in the form of grants. Cofinancing arrangements will also be agreed between the World Bank and the relevant agencies of the rain forest pilot program participants through which rain forest pilot program participants will be able to contribute to the objectives of the pilot program with grants or highly concessional loans.
45. **Denomination and Payments.** The rain forest pilot program participants agree that for ease of administration the minimum contribution to the RFT core resources or through associated cofinancing should be US\$5 million equivalent over the three-year period. To ensure that this is fully usable for the pilot program, contributions should be payable and cofinancing should be made available in convertible currencies. All countries contributing to the RFT in cash (including notes – see below) or through cofinancing will be invited to attend the proposed annual meetings of rain forest pilot program participants.
46. RFT contributions will be payable in cash upfront or a non-negotiable, non-interest bearing note. In the case of cash payments which may be invested prior to disbursement, the expected value of the investment income deriving from these will be added to the nominal amount in determining the full contribution of the donor.
47. Many of the activities financed by the RFT will be experimental, and there is little track record of disbursements to provide guidance in determining an encashment schedule. Nonetheless, based on preliminary assessments, disbursements are expected to be rapid and to be completed by the end of the third year. Accordingly, and as a practical expedient, it is proposed that notes be encashed in fixed equal installments over three years at the beginning of each fiscal year, although encashment schedules in a particular case may vary from this norm as per agreement between the donor and the World Bank.
48. The RFT's commitments and disbursements will be denominated in US\$, while donor contributions can be denominated in any convertible currency. Hence the RFT is exposed to an exchange risk inasmuch as the US\$ value of contributions at the time they are pledged is different from their US\$ value at the time they are disbursed. To reduce the exchange risk, the RFT would be able to convert the amounts called annually into US\$ and to use exchange risk hedging tools to minimize such risks.
49. **Cofinancing.** In addition to the contributions made directly into the RFT, as indicated, contributors can also elect to make resources available to the objectives of the pilot program through cofinancing. The rain forest pilot program participants recognize that allowing such contributions would help to secure the broadest possible participation. While acknowledging that donor governments would retain the ultimate decision-making authority over the specific use of such funds, they agree that cofinancing contributions should be usable on a basis

comparable to that for resources in the RFT, and thus that they should:

- support the same objectives as the RFT;
- preferably be on an untied basis;
- provide resources on grant or highly concessional terms; and
- normally support activities which are partially funded from the RFT.

50. In view of the differences in the practices and legal requirements of donor countries, flexibility will be provided in designing the terms of the loans made available through cofinancing, while maintaining operational flexibility.

51. In order to provide a comparable basis for contributions to the RFT and resources provided through cofinancing, all contributions will be expressed in grant equivalents.

52. **Investment Income.** Rain forest pilot program participants agree that income on any funds held by the RFT pending disbursement will be credited to the resources of the RFT.

53. **Commitment Authority.** The commitment authority of the RFT will be limited to its resources in the form of paid (in notes or cash) donor contributions to the RFT and investment income after an allowance to be made for operating costs. Contributors through cofinancing will be expected to indicate the annual amounts they are making available for commitment and to agree with the World Bank on the allocation of these funds, on the basis of the agreed upon work program. The RFT will not make any commitments exceeding its commitment authority. The commitment authority will be reviewed periodically to reflect the impact of exchange rate changes on the value of its resources.

54. The RFT will be authorized to accept debt instruments held by governments, public and private institutions, and individuals, in the form of voluntary contributions to be used for debt-nature swaps. Such contributions will be under conditions specified by the creditors but will not be accepted in substitution for contributions to the RFT core resources or in the form of associated cofinancing.

55. **Operating Costs.** Operating costs (including for program monitoring and evaluation) incurred by the World Bank, and possibly UNDP, for preparing, appraising and supervising the operations financed from the RFT will be charged directly to the RFT resources. The World Bank's relevant administrative costs and expenses for services rendered in association with bilateral cofinancing will be reimbursed from RFT core resources provided that the cofinancier has made a contribution to the RFT core. If no such contribution has been made, reimbursement of any related World Bank administrative costs and expenses will be part of the cofinancing arrangement. The World Bank and UNDP will keep separate financial records in order to provide an adequate accounting of expenses incurred.

## V. FINANCING TERMS

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56. **Terms.** Rain forest pilot program participants agree that RFT core resources should be made available on a grant basis to Brazil. Since not all of the cofinancing will be on a grant basis, each contributor's contribution to the pilot program will be calculated in terms of its grant equivalent.

57. **Financial Obligations of Brazil.** While in most of the operations of the pilot program, commitments of grant or loan funds would be made to the Brazilian government itself, the resources provided could also be made available directly to intermediaries, NGOs, or private enterprises, but only with the agreement of the Brazilian government. For grant funds from the RFT no government guarantee would be required, but for loans provided through cofinancing, this would depend on the requirements of the donor country. Even where funds are provided directly to the government, there are likely to be many cases in which project implementation is the responsibility of an independent public sector agency, an NGO or a private enterprise. The terms and conditions on which funds are passed on to these agencies will be determined on a case-by-case basis, subject to the concurrence of the World Bank.

58. **Procurement.** Procurement for implementing projects receiving RFT core financing would be subject to the World Bank's normal practices, procedures, and eligibility requirements. Funds allocated to the UNDP will be disbursed in accordance with that agency's normal procurement practices.

59. **Disbursements.** For projects funded from RFT core resources, disbursements will follow the World Bank guidelines and procedures. In the case of joint cofinancing with the World Bank, the World Bank will be responsible for ensuring the appropriateness of disbursement requests and will ensure arrangements are in place for the release of the cofinancier's share of disbursement requirements. In the case of parallel cofinancing, arrangements between the World Bank and the cofinancier will need to be worked out on a case-by-case basis, taking into consideration the

individual donor's legal requirements.

60. **Local Cost Sharing.** For most of the operations funded by the RFT, Brazil would be expected to cover a portion of the local costs which would represent, in effect, a recognition that it is also a partial beneficiary of projects which address these rain forest concerns. Exceptions could be made on case-by-case basis. In this context, Brazil has indicated a willingness to cover staff costs for project preparation and approximately 10 percent of the costs of implementing the program.

61. **Project Savings.** Upon completion of a project, undisbursed funds will be reallocated to the resources of the RFT.

Annex 1Contributions to the RFT Core(as of March 3, 1992)

Contributor	Amount (US\$ millions equivalent)
Canada	0.8 1/
Commission of the European Communities	15.0
Germany	19.5 2/
Italy	5.3 3/
Japan	5.5 4/
United Kingdom	2.5
United States of America	5.0
TOTAL	53.6

1/ Based on a contribution of 1 million Canadian dollars, converted at US\$1.00 = Can\$1.17825 (March 2, 1992).

2/ Based on a contribution of 32 million German marks, converted at US\$1.00 = Dm1.6378 (March 2, 1992). Germany has pledged an additional Dm2,001,610 (about US\$1.8 million equivalent) to be administered by the World Bank for project preparation activities.

3/ Based on a contribution of 6.5 billion Italian lira, converted at US\$1.00 = L1227.06 (March 2, 1992).

4/ Based on a contribution of 710 million Japanese yen, converted at US\$1.00 = Y129.28 (March 2, 1992).

## PROJECT DESCRIPTION

A. Purpose of Grant

The purpose of this Grant is to assist in carrying out the Pilot Program to Conserve the Brazilian Rain Forest (the "Pilot Program"). The Pilot Program has been prepared by the Government of Brazil, with the assistance of the International Bank for Reconstruction and Development (the "IBRD") and the Commission of the European Communities (the "CEC"). The overall objective of the Pilot Program is to maximize the environmental benefits of Brazil's rain forests consistent with Brazil's development goals, through the implementation of a sustainable development approach that will contribute to a continuing reduction of the rate of deforestation. The attainment of this objective will reduce the significant carbon emissions and the threat of global climate change due to the destruction of Brazilian rain forests.

Support for the Pilot Program will be administered by IBRD, which shall act as trustee of the Rain Forest Trust Fund (the "Trust Fund") established by the IBRD pursuant to Resolution No. IBRD 92-45, effective March 24, 1992. As trustee of the Trust Fund, the IBRD will manage and use, in furtherance of the Pilot Program, funds contributed to the Trust Fund. The United States has agreed to assist in carrying out the Pilot Program in order to save the Amazon rain forest. Part of this assistance will be financed through the Trust Fund by the grant of the United States Agency for International Development ("A.I.D.") of Three Million United States Dollars (\$3,000,000) (the "Grant").

Funds provided by the Grant may be used as necessary to support the activities of the Pilot Program in conserving the Brazilian Rain Forest.

Support of the Pilot Program through the Trust Fund will be a collaborative effort involving Canada, Germany, Italy, Japan, the United Kingdom, the CEC, and the United States.

B. Period of Grant

The period of this Grant shall be from the date of the Letter Grant Agreement between the IBRD and A.I.D. (the "Agreement") until September 30, 1995, the expiration date of the Grant. Funds obligated hereunder are available from the date of the Agreement until September 30, 1995.

C. Amount of Grant and Payment

This A.I.D. project provides for a Grant to the IBRD of Three Million United States Dollars (\$3,000,000), which sum A.I.D. hereby obligates for the purposes described in Paragraph A. above.

Payment shall be made to the Grantee by a deposit of the sum of Three Million United States Dollars (\$3,000,000) into Cash Account "T" of the International Development Association (ABA 0210-8212-0) maintained at the Federal Reserve Bank of New York. At the time of such deposit, A.I.D. shall instruct the Federal Reserve Bank of New York to advise the Cash Management Department of the IBRD of (i) the amount received, (ii) the date of the deposit and (iii) the fact that the deposit is for the Brazil Rain Forest Trust Fund (21945).

The A.I.D. financial commitment of Three Million Dollars (\$3,000,000) to the IBRD will be obligated upon signature of the Agreement.

D. Reports and Evaluation

All reporting to A.I.D. pertaining to the Grant shall be made to:

Environment, Energy and Science Staff  
Room 2242 N.S.  
Bureau for Latin America and the Caribbean  
United States Agency for International Development  
Washington, D.C. 20523-0010.

The first of the reports and financial statements to be provided pursuant to Paragraphs 8 and 9 of subsection D. of Resolution IBRD 92-45 (attached hereto as Attachment A), entitled "Organizational Arrangements, Reports and Consultations," shall be provided to A.I.D. by IBRD no later than June 30, 1993.

A.I.D. shall also receive all other management, operations and budget reports generated by the IBRD relating to the Trust Fund at the time that such reports are prepared.

The IBRD shall also submit two (2) copies of each report required by this Agreement, after review, acceptance and approval of each such report by A.I.D., to the A.I.D. Directorate for Policy:

POL/CDIE/DI  
Acquisitions  
Room 303, SA-18  
Agency for International Development  
Washington, D.C. 20523-1803.

The title of all reports forwarded shall include a descriptive title, the name(s) of the author(s), the grant number, the project number and title, the contractor's name, the name of the A.I.D. project office and publication or issuance date of the report.

STANDARD PROVISIONS FOR  
GRANTS TO PUBLIC INTERNATIONAL ORGANIZATIONS

1. ALLOWABLE COSTS (JULY 1988)

a. The grantee shall be reimbursed for costs incurred in carrying out the purposes of this grant which are reasonable, allocable, and allowable.

(1) Reasonable shall mean those costs that do not exceed those which would be incurred by an ordinarily prudent person in the conduct of normal business.

(2) Allocable shall mean those costs which are necessary to the grant.

(3) Allowable shall mean those costs which are reasonable and allocable, and which conform to any limitations set forth in this grant.

b. Prior to incurring a questionable or unique cost, the grantee is encouraged to obtain the grant officer's written determination as to whether the cost will be allowable.

2. REFUNDS (JULY 1988)

a. The grantee is encouraged to utilize interest bearing accounts where feasible and shall remit to AID all interest earned on funds provided by AID

b. Funds obligated by AID but not disbursed to the grantee at the time the grant expires or is terminated shall revert to AID, except for such funds encumbered by the grantee by a legally binding transaction applicable to this grant. Any funds advanced to but not expended by the grantee at the time of expiration or termination of the grant shall be refunded to AID except for such funds encumbered by the grantee by a legally binding transaction applicable to this grant.

c. If, at any time during the life of the grant, or as a result of final audit, it is determined that AID funds provided under this grant have been expended for purposes not in accordance with the terms of this grant, the grantee shall refund such amount to AID

3. REVISION OF GRANT BUDGET (JULY 1988)

a. The approved grant budget is the financial expression of the grantee's program as approved during the grant award process.

b. The grantee shall immediately request approval from the grant officer when there is reason to believe that within the next 30 calendar days a revision of the approved grant budget will be necessary for any of the following reasons:

(1) To change the scope or the objectives of the project and/or revise the funding allocated among project objectives.

(2) Additional funding is needed.

(3) The grantee expects the amount of AID authorized funds to exceed its needs by more than \$5,000 or five percent of the AID award, whichever is greater.

c. Except as required by other provisions of this grant specifically stated to be an exception from this provision, the Government shall not be obligated to reimburse the grantee for costs incurred in excess of the total amount obligated under the grant. The grantee shall not be obligated to continue performance under the grant (including actions under the "Termination Procedures" provision) or otherwise to incur costs in excess of the amount obligated under the grant, unless and until the grant officer has notified the grantee in writing that such obligated amount has been increased and has specified the new grant total amount.

4. TERMINATION PROCEDURES (JULY 1988)

This agreement may be terminated, in whole or in part, by either party at any time upon 30 days written notice of termination. Upon receipt of and in accordance with a termination notice from the grant officer, the grantee shall take immediate action to cease all expenditures financed by this grant and to cancel all unliquidated obligations if possible. Further, upon receipt of notice of termination, the grantee shall not enter into any further obligations under this grant. Except as provided below, no further reimbursement shall be made after the effective date of termination. The grantee shall within 30 days of the effective date of termination repay to the Government all unexpended AID funds which are not otherwise obligated by a legally binding transaction applicable to this grant. Should the funds paid by the Government to the grantee prior to the effective date of termination be insufficient to cover the grantee's obligations

in a legally binding transaction, the grantee may submit to the Government within 90 days after the effective date of termination a written claim for such amount. The grant officer shall determine the amount(s) to be paid by the Government to the grantee under such claim in accordance with the "Allowable Costs" provision of this grant.

\* 5. U.S OFFICIALS NOT TO BENEFIT (JULY 1988)

No member of or delegate to the U.S. Congress or resident U.S. Commissioner shall be admitted to any share or part of this grant or to any benefit that may arise therefrom.

6. NONLIABILITY (JULY 1988)

AID does not assume liability for any third party claims for damages arising out of this grant.

7. AMENDMENT (JULY 1988)

The grant may be amended upon mutual consent of the parties by formal modifications to the basic grant document or by means of an exchange of letters between the grant officer and an appropriate official of the grantee.

8. NOTICES (JULY 1988)

Any notice given by AID or the grantee shall be sufficient only if in writing and delivered in person, mailed, or cabled as follows:

To the AID grant officer, at the address specified in the grant.

To grantee, at grantee's address shown in the grant or to such other address designated within the grant.

Notices shall be effective when delivered in accordance with this provision, or on the effective date of the notice, whichever is later.

9. PUBLICATIONS (JULY 1988)

(This provision is applicable when publications are financed under the grant.)

a. If it is the grantee's intention to identify AID's contribution to any publication resulting from this grant, the grantee shall consult with AID on the nature of the acknowledgement prior to publication.

b. The grantee shall provide the AID project officer with one copy of all published works developed under this grant and with lists of other written work produced under the grant.

c. Except as otherwise provided in the terms and conditions of the grant, the author or the recipient is free to copyright any books, publications, or other copyrightable materials developed in the course of or under **this grant, but AID reserves a royalty-free nonexclusive and irrevocable right to reproduce, publish, or otherwise use, and to authorize others to use the work for U.S. Government purposes.**

10. AUDIT AND RECORDS (STANDARD) (JULY 1988)

(This provision is applicable when AID is not the sole contributor to the grant program.)

The grantee shall maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting procedures to sufficiently substantiate charges to the grant. The Grantee confirms that this program will be subject to an independent audit in accordance with the Grantee's usual auditing procedure, and agree to furnish copies of these audit reports to AID along with such other related information as may be requested by AID with respect to questions arising from the audit report.

10. AUDIT AND RECORDS (AID SOLE CONTRIBUTOR) (JULY 1988)

(This provision is applicable when AID is the sole contributor to the grant program.)

The grantee shall maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting procedures to sufficiently substantiate charges to the grant. The Grantee agrees to make available to AID or the Comptroller General of the United States all records and documents which support expenditures made under this program.

10. Audit and Records (U.N. Grants) (July 1988) \*

(This provision-is applicable to grants to the United Nations when AID is not sole contributor. When this provision is used the "Reporting and Evaluation" clause in the grant schedule should be deleted.)

It is agreed that the grantee will furnish the U.S. government with a final report on activities carried out under this grant, including accounting for these funds in sufficient detail to enable AID to liquidate the grant. The report should be submitted to the U.S. Mission to the U.N. in New York for forwarding to the AID program office.

It is understood that financial records, including documentation to support entries on accounting records and to substantiate charges against the grant, shall be maintained in accordance with the Grantee's usual accounting procedures, which shall follow generally accepted accounting practices. All such financial records shall be maintained for at least three years after the final disbursement of funds under this grant.

The Grantee confirms that the grant account will be audited in accordance with established procedures under appropriate provisions of the financial regulations and rules of the United Nations.

Any funds disbursed by AID, but not committed by the Grantee prior to the expiration date shall be refunded to AID Funds not used for the purpose of this Grant shall be refunded to AID by the Grantee.

11. PAYMENT (PERIODIC ADVANCE) (OCTOBER 1991)

(This provision is applicable when: (i) the grantee maintains procedures to minimize the time elapsing between the transfer of funds and the disbursement thereof, and (ii) the grantee's financial management system meets generally accepted accounting standards for funds control and accountability.)

a. Periodic advances shall be limited to the minimum amounts needed to meet current disbursement needs and shall be scheduled so that the funds are available to the grantee as close as is administratively feasible to the actual disbursements by the grantee for program costs. Cash advances made by the grantee to secondary recipient or the grantee's field organizations shall conform substantially to the same standards of timing and amount as apply to cash advances by AID to the grantee.

b. The grantee shall submit requests for advances (using SF-270, "Request for Advance or Reimbursement") at least monthly to the paying office specified in the grant letter. Requests shall state the estimated disbursements to be made during the period covered by the request, less the estimated balance of cash on hand at the beginning of the period and the advance amount being requested.

c. The grantee shall submit a "Financial Status Report" (SF-269A) quarterly, no later than 30 days after the end of the period, to the paying office specified in the grant letter. The report shall show disbursements, advances received, and any cash remaining on hand for the period covered by the report. Within 90 days following the expiration of the grant, the grantee shall submit a SF-269A showing total disbursements, total advances received, and any cash remaining on hand, which will be refunded to AID.

d. If at any time, the AID Controller determines that the grantee has demonstrated an unwillingness or inability to: (1) establish procedures that will minimize the time elapsing between cash advances and the disbursement thereof, (2) timely report cash disbursements and balances as required by the terms of the grant, and (3) impose the same standards of timing of advances and reporting on any subrecipient or any of the grantee's overseas field organizations; the AID Controller shall advise the grant officer who may suspend or revoke the advance payment procedure.

11. PAYMENT (COST-REIMBURSEMENT) (JULY 1988)

(This provision is applicable when the grantee does not meet the standards for a letter of credit or for periodic advances)

The grantee shall submit to the paying office indicated in the grant letter an original and 3 copies of SF-1034, "Public Voucher for Purchases and Services Other Than Personal" and SF-1034A, Continuation of SF-1034, normally once a month, but in any event no less than quarterly. Each voucher shall be identified by the grant number and shall state the total costs for which reimbursement is being requested.

11. PAYMENT (LETTER OF CREDIT) (JULY 1988)

(This provision is applicable when a Letter of Credit is requested by the grantee and approved by AID's Office of Financial Management.)

a. Payment under this grant shall be by means of a Letter of Credit (LOC) in accordance with the terms and conditions of the LOC and any instructions issued by the AID Office of

Financial Management, Program Accounting and Finance Division  
(FA/FM/CMP).

b. As long as the LOC is in effect, the terms and conditions of the LOC and any instructions issued by FA/FM/CMP constitute the payment conditions of this grant superseding and taking precedence over any other clause of this grant concerning payment.

c. If the LOC is revoked, payment may be made on a cost-reimbursement basis, in accordance with paragraph e. of this clause.

d. Revocation of the LOC is at the discretion of FA/FM/CMP after consultation with the grant officer. Notification to the recipient of revocation must be in writing and must specify the reasons for such action. The recipient may appeal any such revocation to the grant officer, in accordance with the Disputes clause of this grant. Pending final decision, payments under the contract will be in accordance with paragraph e. of this clause

e. If the LOC is revoked, the grantee shall submit to the AID Controller an original and 3 copies of SF-1034, "Public Voucher for Purchases and Services Other Than Personal" and SF-1034A, Continuation of SF 1034, normally once a month, but in any event no less than quarterly. Each voucher shall be identified by the grant number and shall state the total costs for which reimbursement is being requested.