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**HANDLING PROCEEDINGS AND
PROJECTS OF BRAZILIAN
STATE COMPANIES SEEKING
EXTERNAL FUNDING**

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ACRONYMS AND ABBREVIATIONS

BACEN – Central Bank of Brazil

BB – Bank of Brazil

CAE – The Brazilian Senate’s Economic Affairs Committee

CAF – Andean Development Corporation

CC- The Brazilian President’s Chief of Staff

COFIEX – Brazilian Overseas Finance Commission

DOU – Brazil’s Federal Official Gazette

EIB – European Investment Bank

EM – Explanatory Statements, Recitals

EU – European Union

FONPLATA – Financial Fund for the Development of the River Plate Basin

GEF – Global Environment Facility

IBRD - The International Bank for Reconstruction and Development

IDB – Inter-American Development Bank

IFAD – International Fund for Agriculture Development

JBIC – Japan Bank for International Cooperation

KFW - Kreditanstalt für Wiederaufbau

MPOG – Ministry of Planning, Budget and Management

NIB – Nordic Investment Bank

PPG7 – Pilot Project for Protecting Brazilian Tropical Forests

SEAIN/ MPOG – International Affairs Secretariat

SF – Brazil’s Federal Senate

SOF/ MPOG – Federal Budget Secretariat

SPI/ MPOG – Planning and Strategic Investment Secretariat

STN/MF – National Treasury Secretariat

1. INTRODUCTION

In 2008 the Brazilian government changed the Law governing Eletrobras, expanding its operation, including overseas, in a way which bears resemblance to what is being done at Petrobras.

Although Eletrobras raised funds overseas by then, with the new legislation, besides extending its relationship with international finance agencies, it went on to develop technical projects and seek partnerships to build Plants, Substations, Transmission Lines, and Energy Trading in several countries.

In addition to giving a boost to its international area, a Parliamentary and Institutional Relations Department was put together in May 2008 - as in other large companies - with the goal of supporting the Eletrobras holding and companies making up the Eletrobras system in monitoring the Bills put forward by Representatives, Senators and by the Executive Branch, as well as Decrees and Messages sent by the Executive Branch.

In the past two years we have already been able to reap good results, which proved the initiative to bring together the team referred to above correct.

This work intends to demonstrate the dispatch of Proceedings and Projects to Obtain External Funding in Brazil, both with international finance agencies and the Brazilian Congress.

The Finance and Investors Relations Department of Eletrobras called upon the Parliamentary and Institutional Relations Department to follow up on the analysis for approval, at the Federal Senate, of a project funded by the IBRD. Therefore we supposed it would be important to know all the process flow, from beginning to completion.

This paper does not intend to work on the opportunity cost of the external financial operations. The financial opportunity and conditions of the loans are discussed and analyzed by a specific sector into Eletrobras. They must take into consideration several factors, including legal limits on debt and credit operations, loan interest rates vis a vis with other available internal resources

interest rates, project financial internal rate of return, return on equity, among others.

2. PURPOSE OF THIS WORK

This work intends to present, in a brief way, guidelines for state companies interested in obtaining financial support for projects with international finance agencies, detailing the several stages of the loan arrangement process, mainly demonstrating the stages in which the Parliamentary and Institutional Relations team of Eletrobras will have to follow up and intervene at Congress in order to guarantee and speed up the process of obtaining funds.

3. FOREIGN FUNDED PROJECTS

The goal of this topic is to register projects funded with external resources obtained with multilateral credit agencies and foreign government agencies, highlighting the financial flows of projects co-financed by those agencies, so as to make it possible to improve the follow-up of performance of those who manage the resources made available.

Foreign capitals are defined as goods or resources entering the Country whose ownership belongs to residents abroad. Foreign capitals are essentially put in here as investment and credit. Investments represent stock of the equity capital of companies based in Brazil, which can be directly or indirectly acquired at the stock market.

Credits can be categorized as loans or financing, depending on how they enter the Country, i.e., foreign currency or machinery and equipment imported for deferred payment. Law nº 4.131 of September 3 1962, determines that inflows and outflows of foreign capitals, as well as their yields, be registered at the Brazilian Central Bank.

Brazil's relationship with multilateral finance agencies and foreign government agencies seeks, largely, to raise funds in order to finance development projects of productive and social infrastructure at federal, state and municipal levels, supporting initiatives for tax, fiscal and administrative modernization, broader sector reforms and, in addition, seeks to benefit from technical assistance and sector expertise counseling provided by those entities.

4. AGENCIES INVOLVED IN THE FINANCING PROCESS

4.1. CENTRAL BANK OF BRAZIL – BACEN

The Central Bank of Brazil – BACEN – is an Autonomous Federal Agency linked to the Ministry of Finance, established by Law 4,595 of December 31, 1964. It has the foremost role in implementing the guidelines of the National Monetary Council and is in charge of guaranteeing the purchasing power of the domestic currency, having as its main goals: watching over the appropriate liquidity of the economy; maintaining international reserves at adequate levels; increasing savings rate; taking care of stability and promoting the permanent improvement of the financial system.

Among its responsibilities are: issuing paper money and metal money; carrying out services of currency in circulation, receiving compulsory and voluntary payments from banking and finance institutions; carrying out loan and rediscount operations to financial institutions; regulating check and other document clearance services; implementing purchase and sale operations of federal government securities; exercising credit control; exerting the monitoring of financial institutions; authorizing the operation of financial institutions; laying out conditions for employment at the board of financial institutions; guarding against interference of other companies in capital and financial markets and controlling foreign capital flows into the country. Its Headquarters are in Brasília and its head offices are in the state capitals of Rio Grande do Sul, Paraná, São Paulo, Rio de Janeiro, Minas Gerais, Bahia, Pernambuco, Ceará and Pará.

4.2. BANK OF BRAZIL

The Bank of Brazil was the first bank to operate in the Country and today is the largest financial institution in Brazil. In more than 200 years of existence, it has gathered experiences and pioneering initiatives, actively taking part of Brazilian culture and history. Its brand is one of the best known and valuable of the Country, bringing together throughout its history attributes of reliance, security, modernity and credibility. With a solid social role and having competence to deal in financial transactions, the Bank of Brazil has demonstrated it is possible to be a profitable company and still retain its core values – which have always made it stand apart from competition.

The bank stands out in the domestic financial system: it is the largest in financial assets (R\$ 342 billion), total deposits (R\$ 172 billion), receivables portfolio (R\$ 150 billion), customer base of individuals (23.7 million), export exchange (28.1% of the market), third-party asset management (R\$ 193 billion, Latin America's largest), and credit card sales (19.8% of the market).

Bank of Brazil posted a net profit in the second quarter of 2009, which represented an increment of 42.8% over the same period in 2008. In the second quarter of 2009, it reached the seventh position among the most profitable banks of the Americas. It is important to stress that the Bank of Brazil has a prominent role in the country's agribusiness, financing a great deal of exports as well as contributing to the development of small businesses by providing lines of credit for working capital and investment.

4.3. THE SENATE'S ECONOMIC AFFAIRS COMMITTEE - CAE

It is up to the Economic Affairs Committee to give opinions on propositions concerning the following subjects:

- ✚ economic and financial aspect of any matter submitted to it by dispatch of the President, by deliberation of the Plenary, or by consultation to the committee, and, further, when, due to those aspects, there was an appeal to the Plenary regarding the committee's final decision;
- ✚ economic problems of the Country, credit policy, exchange rate, insurance and money transfers, interstate and foreign trade, monetary, banking, and measures systems, bonds, savings systems, *consórcio*¹, lottery and commercial advertising;
- ✚ taxes, tariffs, compulsory loans, public finance, general standards on tax, finance, and economic law, federal budget, boards of trade, competency conflicts on tax law involving the Federal Government, States, the Federal District and Municipalities, public debt, and monitoring of financial institutions;
- ✚ appoint members of the General Accountability Office (Constitution, articles 49, XIII, and 52, III, b), and of the Chairman and Board of Governors of the Brazilian Central Bank (Constitution article 52, III, d);
- ✚ authorization request for overseas operations, of financial nature, concerning the Federal Government, States, the Federal District, Territories and Municipalities;
- ✚ establish global limits for the amount of long-term public debt of Federal, State, Federal District, and Municipal governments (Constitution article 52, VI);
- ✚ provide global limits and conditions for overseas and domestic credit operations of the Federal, State, Federal District, and Municipal

¹ a kind of savings/purchasing association that uses periodically-held drawings to determine which member can draw on its pooled funds to make a certain purchase.

- governments, and autonomous agencies and other entities controlled by federal public authority (Constitution article 52, VII);
- ✚ provide limits and conditions for granting Federal Government guaranty in overseas and domestic credit operations (Constitution articles 52, VIII);
 - ✚ set up global limits and conditions for the amount of (outstanding) bonds issued by States, the Federal District and Municipalities (Constitution article 52, IX) and to the taxing power of States and the Federal District;
 - ✚ appointment of rapporteur of projects at CAE: according to article 89, subsection 3 of the Federal Senate's Bylaws, the Chairman of the Committee has the prerogative of appointing the rapporteur on the matter. However, according to article 126 of the Bylaws, it is standard procedure to seek a balance, appointing now the representative of one political coalition, then from another political coalition.

4.4. THE PRESIDENT'S CHIEF OF STAFF

The President's Chief of Staff, who runs an essential Ministry in the Brazilian Administration², has roles on the following matters:

- ✚ Assistance and counseling to the President on the performance of his (her) duties, especially on matters related to the coordination and integration of Government initiatives;
- ✚ Previous assessment of the constitutionality and lawfulness of presidential acts;
- ✚ Evaluation and monitoring of government initiatives and of those of agencies and entities of the Federal Administration, especially priority goals and government programs established by the President;
- ✚ Analysis of the merits, of the convenience and compatibility of proposals, including matters under consideration in Congress, with governmental guidelines;

² In Brazil, the Chief of Staff is a member of the president's cabinet, and runs the structure of a Ministry.

- ✚ Publication and preservation of official acts;
- ✚ Supervision and implementation of administrative tasks concerning the Presidency of the Republic and, additionally, the Vice-Presidency;
- ✚ Evaluation of government action and appraisal of the results of public managers, within the framework of departments integrating the Presidency and Vice-Presidency of the Republic, as well as others defined by specific legislation, by means of inspection regarding accounting, financial, budgetary, operational, and asset aspects;
- ✚ Performance of support activities necessary for exercising the responsibility of the Superior Cinema Council (Concine) and of the Deliberative Council of the Amazon Protection System (Cosipam);
- ✚ Operationalization of the Amazon Protection System (Sipam); and
- ✚ Implementation of certificate policies and technical and operational standards, approved by the Managing Committee of the Brazilian Public-Key Infra-structure (ICP-Brazil).

4.5. BRAZILIAN OVERSEAS FINANCE COMMISSION - COFIEX

The COIFEX – Brazilian Overseas Finance commission, a deliberative body integrating the structure of the Ministry of Planning, Budget, and Management, was created by the Federal Government in 1990, resulting from an administrative reform which took place in that year, with the goal of (a) coordinating the process of raising external resources for financing projects of public sector agencies and entities, taking into account: national and sector priorities, the availability of matching funds as well as the execution capacity and debt ceiling of borrowers, and (b) streamlining the selection process of projects or programs seeking external funding, making them nimbler, more systematized, coordinated and transparent.

The COIFEX – Brazilian Overseas Finance commission has, as specific goals:

(a) coordinating the process of raising funds overseas for financing public sector projects of agencies and entities, considering national and sector priorities, the

availability of matching funds as well as the execution capacity and debt ceiling of borrowers;

(b) streamlining the selection process of projects or programs seeking external funding, making them nimbler, more systematized, coordinated and transparent.

The responsibilities of the COFIEX, as provided by Decree n^o 3502, of June 12, 2000, are the following:

- (1) identifying, examining, and evaluating overseas financial support claims (either refundable or nonrefundable), so as to prepare public entity projects or programs;
- (2) Examining and assessing claims concerning changes of technical and financial nature of ongoing projects or programs, with overseas financial support, whenever amendments are required in the respective legally binding documents resulting in addendum subscription, especially in case of extension of disbursement time, cancellation of balance due, target expansion, inclusion of new components and reframing of projects or programs.

The following members integrate the COFIEX:

- i. The Deputy Minister of the Ministry of Planning, Budget, and Management, Chairman of the Commission;
- ii. The International Affairs Secretary of the Ministry of Planning, Budget, and Management, Executive-Secretary of the Commission;
- iii. The Planning and Strategic Investment Secretary of the Ministry of Planning, Budget, and Management;
- iv. The Federal Budget Secretary of the Ministry of Planning, Budget, and Management
- v. Head of the Economic Council of the Ministry of Planning, Budget, and Management;
- vi. The Undersecretary-General on Integration, Economic and Foreign Trade Affairs of the Ministry of Foreign Affairs;

- vii. The National Treasury Secretary of the Ministry of Finance;
- viii. The International Affairs Secretary of the Ministry of Finance;
- ix. The Economic Policy Secretary of the Ministry of Finance; and
- x. International Affairs Governor of the Brazilian Central Bank.

Prominent Basic Guidelines of the COFIEX:

- ✚ Framing of Projects: In case of Federal Government entities, framing of the Project shall be checked within programs, actions and resources estimated by the Multi-Year Plan (PPA), and compliance – according to the Law of Budgetary Guidelines (LDO) - with binding resources and matching of overseas funds;
- ✚ Financial Position of Borrower: when the borrower is a Federal State Company, the assessment of its financial position will consider the following criteria, whenever applicable: designation of amount to be financed in Agreement or Fiscal Adjustment Program signed with the Federal Government; indebtedness ceiling, borrowing capacity, Capacity to transfer matching funds, non-defaulting condition with the Federal Government; and counter-guarantee effectively covering granting of surety by the National Treasury.
- ✚ Performance of Borrower/Manager: it is a relevant aspect when assessing the proposal, experience, and performance of the borrower and/or manager in Projects with overseas financial support.

Technical Group of the COFIEX:

The GTEC – Technical Group of the COFIEX was instituted by Decree nº 3502 of June 12, 2000, in order to advise the COFIEX on the performance its duties. The Group is comprised of surrogates of the Commission's Full members.

Its specific goals are to:

- a) subsidize opinions of full members of the COFIEX with technical analyses, regarding claims of public sector agencies and entities intent on obtaining

financial support from international agencies – refundable or not – for Project implementation;

b) examine and assess claims concerning changes of technical and financial nature of ongoing projects or programs, with overseas financial support, whenever amendments are required in the respective Agreements resulting in addendum subscription, especially in case of extension of disbursement time, cancellation of balance due, target expansion and reduction, inclusion of new components and reframing of projects.

4.6. BRAZIL'S FEDERAL OFFICIAL GAZETTE - D.O.U.

The Federal Official Gazette (D.O.U.) is one of the media outlets whereby the *Imprensa Nacional* (official government printing and news office) has to make public all and any matter concerning the Federal Government. Nowadays the D.O.U. can be read online and print editions can be bought at newsstands. The D.O.U. consists of three sections, which publish:

- ✚ Laws, decrees, resolutions, normative instructions, ministerial directives and other normative acts of general interest;
- ✚ Acts relevant to Federal Administration employees;
- ✚ Contracts, terms of reference, non-editorial notes.

The *Imprensa Nacional* is under the authority of the Presidency of the Republic of Brazil.

4.7. BRAZIL'S FEDERAL SENATE - SF

The Federal Senate is one of the two chambers of Congress, the other being the House of Representatives. It was created in 1824, with the Empire's first

Constitution. Since then, it has had a fundamental role in consolidating democracy and in the stability of institutions.

It represents the Brazilian Federation; therefore there are the same number of Senators for each of the 26 States and the Federal District, adding up to 81.

On this and on the next pages, it will be possible to learn more on the history and roles of the Senate, from the most comprehensive ones – as legislating on matters of national interest and monitoring the use of public money – to those of its exclusive jurisdiction.

4.8. THE MINISTRY OF PLANNING, BUDGET AND MANAGEMENT - MPOG

The MPOG is a Ministry of the Brazil's executive branch, whose role is planning government administration, forecasting costs, analyzing project viability, controlling budgets, allocating funds to States and government projects.

Created in 1962 in the João Goulart Administration, it was shut down little more than a year later, in 1964, having had Celso Furtado as its sole Minister for that period. At that time, the Ministry launched the Triennial Plan.

Some months afterward, still in 1964, it was reopened, now in the Castelo Branco administration, and Roberto Campo stepped up as the first Minister of that period. The first program of that new office was the Government Economic Action Program (PAEG).

The roles of the Ministry are:

- ✚ Taking part in the development of national strategic planning;
- ✚ Assessing social and economic impacts of Federal Government policies and programs and developing special studies for policy reformulation;
- ✚ Carrying out studies and research in order to follow up on the economic outlook and managing national cartography and statistics systems;

- ✚ Formulating, following up on, and evaluating the multi-year investment plan and yearly budgets;
- ✚ Making new fund sources feasible for government plans;
- ✚ Coordinating and managing public-private partnerships;
- ✚ Formulating guidelines, coordinating negotiations, following up on and evaluating external funding of public projects with multilateral organizations and government agencies;
- ✚ Coordinating and managing federal budgetary and planning systems, of individuals, managing information resources, Information technology, and general services, as well as initiatives for restructuring and streamlining the Federal Government;
- ✚ Formulating guidelines, coordinating and defining corporate governance criteria for federal state companies;
- ✚ Asset management;
- ✚ Policy and guidelines for modernization of the State.

4.9. NATIONAL TREASURY (STN)

The National Treasury Secretariat was created on March 10, 1986, according to Decree nº 92.452, unifying the former Financial Programming Commission and the Internal Controls Secretariat of the Ministry of Finance. It is a core body of the Federal Finance Administration System and the Federal Accounting System. Instituting the National Treasury Secretariat was a major step in strengthening Brazilian Public Finance.

The replacement of the Government Transactions account at the Bank of Brazil with the Unique Treasury Account at the Central Bank, in 1988, contributed to management and control of federal finance being linked to the financial execution of managing units. The implementation of the Unique Treasury Account eliminated more than five thousand government bank accounts, enabling a more effective cash flow control in the Government. Concurrently,

there was a unification of budgets, eliminating the monetary budget and, therefore, submitting government expenditure to previous Congress authorization. At the end of the 1980's, the National Treasury took charge of Agriculture and Export Development activities, formerly managed by the Central Bank, as well as taking charge of actions concerning the management and planning of the Internal Securities Debt.

In the 1990's, several initiatives were adopted in order to improve management of Federal Finance and Budget. Among some of those measures, should be highlighted the centralization of activities concerning foreign debt management (which made it possible to fully include that service in the Federal Budget), the debt securitization process by means of privatization currencies, and the restructuring operations of the Treasury Investment Portfolio of the Central Bank.

In August 1993, by Decree nº 890, the responsibility for foreign currency especial accounts control and transactions, resulting from agreements signed with multilateral organizations and credit agencies, was transferred to the National Treasury.

Thus, the National Treasury Secretariat went on to be charged with controlling and managing the federal public debt, due either to debt securities or contractual obligations, domestic or foreign, concentrating in a single government unit the responsibility for managing all Federal Government commitments. This allows for greater budgetary and financial transparency, as all payments are inserted in the Federal Budget, approved every year by Congress.

This has contributed decisively to improving the relationship with multilateral organizations and international credit agencies, where results produced owing to STN action have been reflected mainly by declining interest rates and by commitment fee waivers with the IBRD, as well as by decreasing credit insurance fees for Brazil with government credit insurance agencies, thanks to a timely servicing of debt obligations.

4.10. FEDERAL BUDGET SECRETARIAT

According to Decree 7,063 of January 01, 2010, the Federal Budget Secretariat is in charge of:

- i. Coordinating, consolidating and supervising the formulation of the Law of Budgetary Guidelines (LDO) and of the federal budgetary proposal, consisting of the fiscal and social security budgets;
- ii. Establishing standards necessary for the development and implementation of federal budgets under its responsibility;
- iii. Proceeding to, notwithstanding roles attributed to other agencies, follow up on budget execution;
- iv. Carrying out studies and research concerning the development and improvement of the federal budgetary process;
- v. Guiding, coordinating, and supervising from a technical perspective budget sector agencies;
- vi. Supervising the Planning and Budget Analyst Career, in partnership with the Planning and Strategic Investment Secretariat, observing guidelines laid out by the Career Management Committee of the Ministry of Planning, Budget and Management;
- vii. Breaking down budgetary categories of revenue and expense;
- viii. Tracking and assessing public expenditure pattern and its sources of financing, as well as developing and participating of economic and fiscal studies seeking to improve the resource allocation process.

4.11. THE INTERNATIONAL AFFAIRS SECRETARIAT - SEAIN

The International Affairs Secretariat (SEAIN), part of the structure of the Ministry of Planning, Budget, and Management (MPOG), is responsible for:

- I. Setting up guidelines, planning, coordinating policies and actions for the negotiation of public sector programs and projects, linked to foreign sources;
- II. Assessing public sector program or project claims, linked to foreign sources, by providing information to borrowers;
- III. Ensuring, in contract negotiation, that corresponding projects are compatible with the authorization granted by the Overseas Finance Commission – COFIEX;
- IV. Observing the execution of programs and projects approved by COFIEX, upon information given by agencies running them or by borrowers, as well as by international agencies or entities, and recommending, whenever necessary, adjustments in their implementation;
- V. Appraising Brazil's accession to international agencies, upon information given by proponents, and whether it is convenient and opportune to contribute to international institutions, as well as coordinating the process of quota subscription and contributions to international institutions for which the Ministry is responsible.
- VI. Within the scope of the Ministry, following and assessing global guidelines and policies of multilateral development institutions and the Brazilian standing at those institutions;
- VII. Taking part, at Federal level, of the elaboration of the Multi-Year Plan (PPA), of the Law of Budgetary Guidelines project, and of the budget proposal; and

VIII. Advising the Minister of State in international activities.

It is incumbent upon the MPOG/SEAIN to:

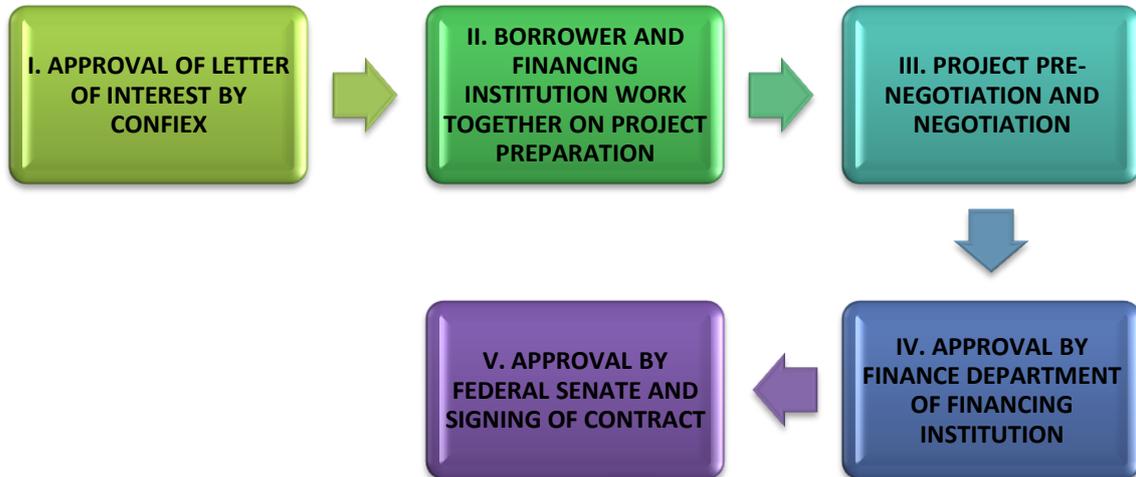
- (a) Coordinate (operationally) all the negotiation process to obtain external financing concerning Projects claimed by public sector entities or agencies to bilateral and multilateral credit agencies;
- (b) Follow the Project execution, observing contract clauses;
- (c) Appraise the performance of the portfolio of project as well as recommend actions leading to improvements if necessary;
- (d) In the capacity of Executive Secretariat of the COFIEX, among other duties, take administrative action regarding COFIEX activities.

4.12. PLANNING AND STRATEGIC INVESTMENT SECRETARIAT - SPI

The SPI's goal is to guarantee a coordinated government action, provide priority definition guidance, and facilitate the promotion of sustainable development, by coordinating and envisioning medium and long-term plans, making sure they are strategically run.

Multi-Year Plans, especially the Development Plan with Social Inclusion and Quality Education (PPA 2008-2011), are important products of the Planning and Strategic Investment Secretariat of the Ministry of Planning, Budget, and Management. It is also up to the Secretariat to identify, follow, and analyze government strategic investment and coordinate technical cooperation activities within the Ministry in regard to planning, following, and assessing government initiatives.

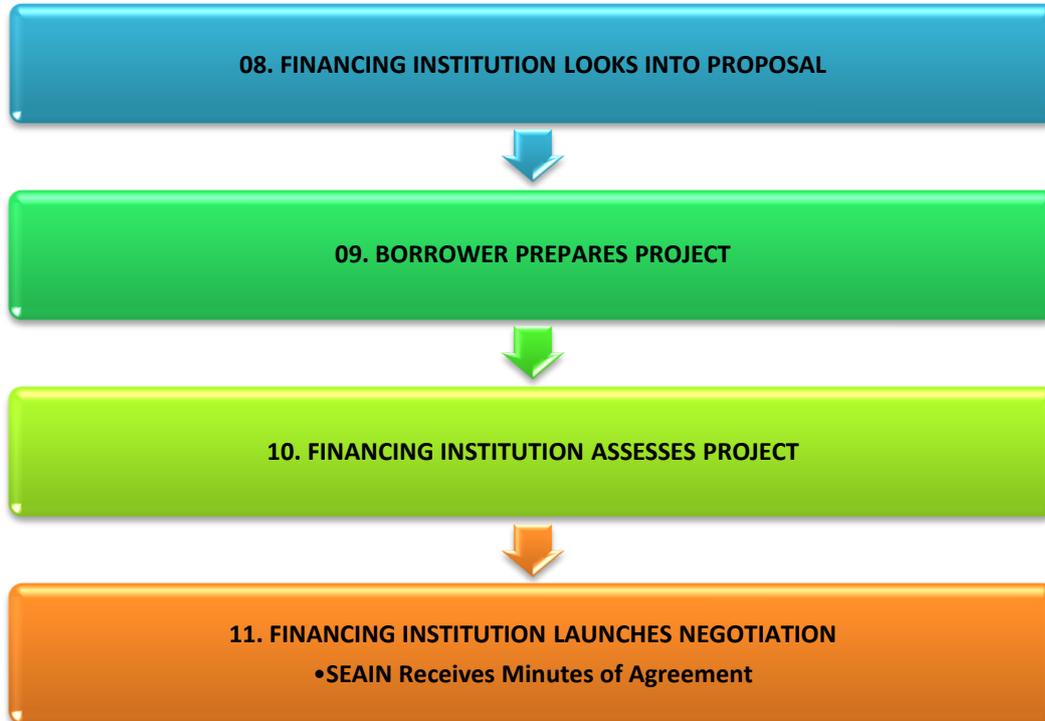
5. STAGES IN CONTRACTING A LOAN OVERSEAS



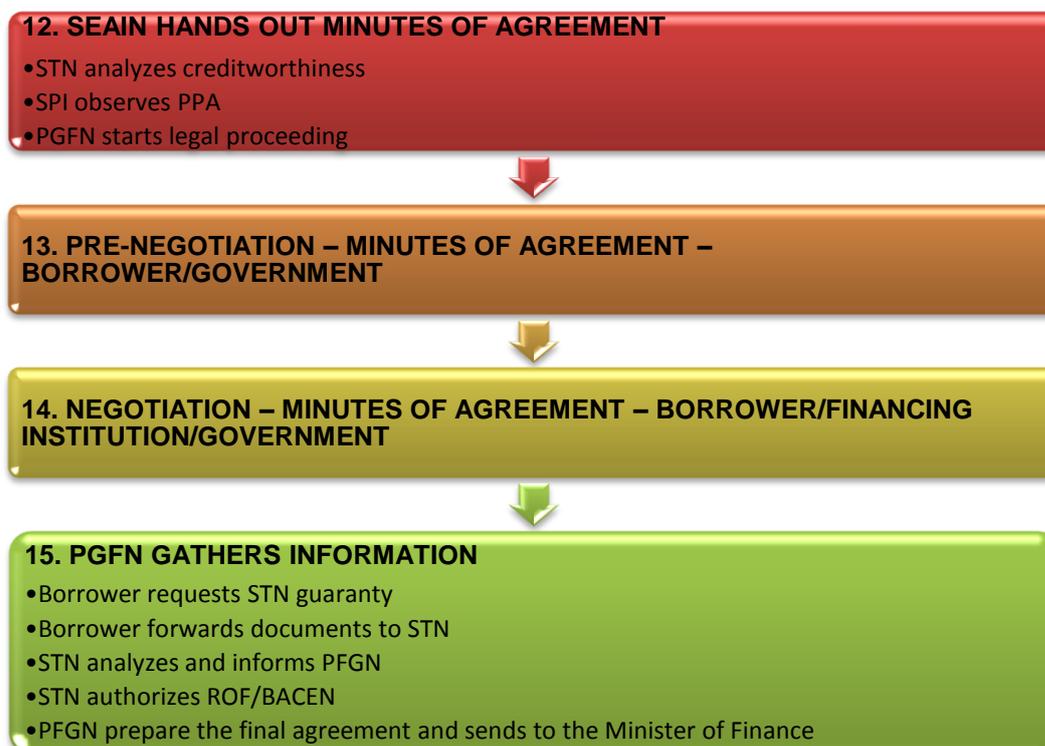
I. APPROVAL OF LETTER OF INTEREST BY CONFIEX



II. BORROWER AND FINANCING INSTITUTION WORK TOGETHER ON PROJECT PREPARATION



III. PROJECT PRE-NEGOTIATION AND NEGOTIATION



IV. APPROVAL BY FEDERAL SENATE AND SIGNING OF CONTRACT

16. MF FORWARDS TO THE PRESIDENT'S CHIEF OF STAFF



17. PRESIDENT'S CHIEF OF STAFF DELIVERS OPINION AND PROCEEDING IS FORWARDED TO THE CONGRESSIONAL AFFAIRS AREA OF THE PRESIDENCY



18. MESSAGE OF THE PRESIDENT IS SENT TO THE FEDERAL SENATE



19. APPROVAL BY THE FEDERAL

- Governing Board of the SF hands out CAE
- CAE analyses and deliberates
- Senate Plenary deliberates
- Senate issues resolution
- Resolution is published in the DOU

V. APPROVAL BY FINANCE DEPARTMENT OF FINANCING INSTITUTION



6. STEPS FOR CONTRACTING A FOREIGN LOAN

The SEAIN – International Affairs Secretariat of the SEPLAN/PR³ – is in charge of coordinating, at every stage, the negotiation involving public sector agencies or entities, in order to contract loans overseas with multilateral organizations and foreign government agencies to fund development programs and projects. It also follows up on the deployment of projects.

This item purports to introduce the stages and basic procedures for contracting loans.

Proposal is submitted to COFIEX – Brazilian Overseas Finance Commission:

- When dealing with Financing:

Applicant submits Letter of Interest to the COFIEX's Executive Secretariat – the SEAIN, which is required to hand it over to members of the Commission and include the respective claim in the meeting agenda of the COFIEX.

- When dealing with Non-Refundable Financial Cooperation:

Applicant submits the proposal's terms of reference which shall include the objective, goals, expenditure categories, the physical and financial schedule, and the institutional arrangement of predicted actions.

Appraisal by COFIEX:

The COFIEX, after deliberating over the claim, issues a Resolution in case of a non-conclusive analysis or recommends that the Head of the Planning, Budget and Coordination Secretariat of the Presidency either approve or reject the project's preparation. Final decision, based on Recommendation by the COFIEX, is to be published in the DOU – Brazil's Federal Official Gazette.

Forwarding to Financing Institution:

³ Planning, Budget and Coordination Secretariat of the Presidency of the Republic.

After approval of the Letter of Interest, the SEAIN forwards available information to the Financing Institution so that it expresses its opinion on the overseas loan request.

Financing Institution Deliberation:

After previously looking into the proposal, Financing Institution expresses interest in supporting the project through its technical missions. Such interest is substantiated with the inclusion of the operation in its future funding schedule for the country, a process having the SEAIN as a liaison.

Project Preparation:

Conducted by the Financial Institution's consecutive technical missions, the proposal is explained in detail by the loan applicant and by possible project executors. The SEAIN follows up on all the preparation process, keeping technical departments of the COFIEX abreast of the latest developments.

**Foreign loan Negotiation: Previous Arrangements
(Authorization, Accreditation and Indebtedness Ceiling)**

Authorization Request to the Ministry of Finance

Concurrently or after the end of the last project preparation technical mission, if it is the case, the applicant makes a formal request to the Ministry of Finance for National Treasury guaranty to be granted and/or an authorization to contract an external credit operation and, in addition, forwards to the PGFN – Public Attorney's Office at the Ministry of Finance – documents stipulated by Ministerial Directive MEFP n° 497/90 of August 27, 1990.

The PGFN institutes the proceeding, checks previously whether all documents required by Ministerial Directive MEFP n° 497/90 have been provided and sends proceeding to the STN - National Treasury Secretariat.

The STN examines the documents and, pursuant to the applicable legislation, analyses, among other aspects, the applicant's conditions to bear the financial obligations arising from the loan and to provide the required matching funds, the non-defaulting condition of the applicant and/or the executor with the Federal Government and its affiliated entities, the counter-guarantees to be had, and, if applicable, requests the opinion of other Federal agencies involved with the operation. The preliminary position of the STN shall be recorded in the official position paper of the Brazilian Delegation.

The final position of the STN shall be expressed only after contract negotiations with the Financial Institution.

Request for Inclusion of Operation within the limits of Indebtedness

a) Direct Federal Administration and Granting of Guarantee

In the case of Direct Federal Administration agencies or when there is involvement of the National Treasury, the STN examines whether there is leeway within the limits of Federal Government indebtedness for contracting the foreign credit operation or for guarantee granting, as provided by the Federal Senate Resolution nº 96/89 of December 15, 1989, reestablished by Resolution nº 17/92 of July 05, 1992.

b) States, Municipalities and Federal District

As regards States, Municipalities, and the Federal District, or when the situation concerns guarantees granted by them to one of their indirect public administration entities, the Governor or Mayor, according to the circumstances, requests to the BACEN/DEDIP – Public Debt and Special Operations Department – the inclusion of the foreign credit operation within the limits of indebtedness established by the Federal Senate, as provided by Resolution nº 11/94 of January 31, 1994. The BACEN issues an opinion on the foregoing inclusion to the Federal Senate, the STN, and the applicant.

If indebtedness limits are at stake, the State, Municipality, or the Federal District may be entitled to request to the Federal Senate, through the BACEN, the provisional raising of the above-mentioned limits.

c) Indirect Federal Administration

In the case of Indirect Federal Administration entity, the applicant certifies to the STN, upon provision of documents required by Ministerial Directive MEFP n° 497/90 and by a form provided by that Secretariat, that the foregoing operation is included within the limits of indebtedness defined by the Federal Senate, as provided by Resolution n° 96/89 of December 15, 1989, reestablished by Resolution n° 17/92 of July 05, 1992.

The applicant will be advised, should the STN verify non-compliance with indebtedness limits. It will be up to the applicant to request that the STN take the necessary action so that limits of indebtedness are briefly raised by the Federal Senate.

Indebtedness limits established by Resolution n° 96/89 do not apply to foreign credit operations contracted by financial institutions.

Request to the Federal Senate

Regarding direct contracting by States, Municipalities, and the Federal District, or when the situation concerns guarantees granted by them to affiliated or controlled entities, the Governor or Mayor requests, on behalf of the applicant, authorization to the Federal Senate to contract the credit operation or the granting of guarantee, when applicable.

Accreditation Request at the BACEN - The Central Bank of Brazil

The applicant requests accreditation to the BACEN/FIRCE – Department of Foreign Capitals, attaching, for that purpose, documents demanded by that autonomous federal agency which include, necessarily, the minutes of the foreign loan contract or of the creditor's sound proposal, if applicable, and a copy of the preliminary position of the STN sent to the BACEN, granting approval to its accreditation.

The BACEN accredits the applicant to launch formal negotiations with the Financing Institution within the financial conditions defined by the country for foreign credit operations.

If the Financing Institution is the IBRD or the IDB, BACEN accreditation is usually issued after formal negotiations are carried out.

Foreign Financing Negotiation

Preparing for Negotiation (Pre-negotiation)

The SEAIN, upon receiving the draft contract of the Agent Lender, distributes them to the organs involved and convene meeting for review and discussion of those drafts with the postulant and the performers.

At this meeting, prepared the position of the Brazilian delegation to negotiations with the lenders.

Agent Negotiation with Funder.

After the process of pre-negotiation of the draft contract, which includes checking compliance with the requirements of the postulant MEFP Ordinance No. 497/90, the SEAIN, in agreement with the postulant, the PGFN and STN defines the Agent Lender date and venue of any contract negotiations. The draft contract are negotiated between the lender and the Delegation of Brazil (SEAIN, STN, and postulant PGFN).

Arrangements Prior to Hiring Foreign Funding

"Final Agreement" - BIRD

When dealing with external credit operations to be contracted by the IBRD, PGFN, after the outbreak of the STN conveys the "final agreement" of the Brazilian Government that organism.

Explanatory Memorandum to the President

The PGFN, based on the opinion of the STN, the candidate's legal opinion on the draft negotiated contract, and ownership of the operation of accreditation by the Central Bank, issuing an opinion on this draft and prepare explanatory memorandum to the Minister of Finance to the President of Republic,

requesting that message to the Senate, as provided in Resolution No. 96/89 (federal government) and No. 11/94 (states, municipalities and Federal District), that legislative house, which in turn, request permission to contracting of credit operations and / or guarantees granted to the Union itself.

Deliberation in the Senate

The Senate authorizes the hiring of external credit operations, as well as providing the guarantee of the Treasury, if any, by publishing the resolution specifically.

Publishing & Conditions of Effectiveness

Senate Resolution published in the Federal Official Gazette, the PGFN if the process is so establishes, return it to the STN, which is manifested on the fulfillment of effectiveness conditions contained in the draft contract negotiated.

Hiring Foreign Funding

Signing of Contract

Once approved the funding by the Executive Agent and Lender, as the accident, in possession of a final opinion of the STN, the PGFN prepares the order of the Minister of Finance authorizing the hiring of external credit operations or giving the guarantee of the Treasury. The order signed by the Minister of Finance, the contract can be signed.

The Minister of Finance or by delegation, the PGFN represents the Union at the contract signing as principal or guarantor.

Final Arrangements

In order to make the contract effective and allow the disbursement of funds, applicants, borrowers now, take the following measures, beyond those in the contractual arrangements:

- asks the BCB / FIRCE, the record of the operation of foreign credit. Should the contract be in a foreign language, the request for registration shall be accompanied by official translation of the contract, and a copy of the original, properly and consular notorizada;

- asks the court of law within its jurisdiction of opinion on the legal aspects of the operation of foreign credit ("legal opinion") and forwards the PGFN which, in turn, sends his "legal opinion", as borrower or guarantor of the external credit, pursuant to Ordinance No. MEFP 650 of 01.10.1992, and

- published in the Official Gazette Extract External Loan Agreement with the basic characteristics of operation, which necessarily discriminate: the kind and value of the transaction, the parties (debtor and creditor), the object of financing, the date of conclusion of contract and the parties' representatives, by name.

7. MULTILATERAL ORGANIZATIONS AND GOVERNMENT CREDIT AGENCIES

	EUROPEAN INVESTMENT BANK - EIB
	INTER-AMERICAN DEVELOPMENT BANK - IDB
	THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT - IBRD
	ANDEAN DEVELOPMENT CORPORATION - CAF
	INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT - IFAD
	FINANCIAL FUND FOR THE DEVELOPMENT OF THE RIVER PLATE BASIN - FONPLATA
	GLOBAL ENVIRONMENT FACILITY – GEF
	JAPAN BANK FOR INTERNATIONAL COOPERATION - JBIC
	KREDITANSTALT FÜR WIEDERAUFBAU - KfW
	NORDIC INVESTMENT BANK - NIB
	PILOT PROJECT FOR PROTECTING BRAZILIAN TROPICAL FORESTS - PPG7

Next we introduce the main Financing Institutions, Multilateral Organizations, and Government Credit Agencies with which Brazil has financing cooperation.

The aforementioned organizations are governed by their own policies in terms of operational, administrative, and personnel matters, as well as sector policies, which provide guidance on specific fields of activity. Also, these organizations

have a policy for collecting and disclosing their own information, in addition to different procedures for contracting and deploying their projects.

7.1. EUROPEAN INVESTMENT BANK - EIB

The European Investment Bank (EIB) is the European Union's (EU) financing institution based in Luxemburg. Established in 1957 and created in 1958 under the Treaty of Rome - which instituted the European Community - with the goal of funding investment projects that support an integrated and balanced development of the European Union and contribute to the attainment of its general policy objectives.

The Bank's lending initiatives are intended primarily for EU Member-States. Nevertheless, currently the EIB takes part in development and cooperation policies, and the Bank is active in over 150 countries, including in the Latin American region.

To fulfill its mission, the Bank raises a great deal of its resources by borrowing in the capital markets. The Banks shareholders are the 27 (twenty seven) EU Member-States, which subscribed to its capital. The EIB, the largest international non-sovereign lender and borrower, has always deserved the AAA credit rating from the main rating agencies, which enables it to obtain the best terms on the market when mobilizing vast resources, which reflect on its lending conditions.

The EIB supports public and private sector investment projects aiming at technology transfer and development of several industries, including agribusiness, mining, telecommunications, transport, energy, and tourism, with special emphasis on sustainable environmental policies.

Most loans to Brazil have been allocated to funding private sector investment, except for the *Bolivia-Brazil Pipeline* project, which resulted from a partnership involving public and private sector entities.

Projects exceeding € 25 million may be funded by individual (direct) loans, granted either directly to the promoter of the project or indirectly, through a Government or an intermediary bank.

Projects with a total investment cost of less than EUR 25 million are financed by intermediated loans (global loans), lines of credit granted to select financing institutions, which pass on the EIB funds to promoters, most of the times, small and medium-sized enterprises (SMEs). These institutions proceed to evaluating each project, taking credit risk and setting up loan conditions to the end loan recipient, according to conditions agreed upon with the EIB.

7.2. INTER-AMERICAN DEVELOPMENT BANK – IDB

The Inter-American Development Bank – IDB, headquartered in Washington D.C. and founded in 1959, is the main source of multilateral financing and expertise for sustainable economic, social and institutional development in Latin America and the Caribbean. It also plays a fundamental role in regional integration.

The Bank provides loans and technical assistance using resources contributed by its member countries, as well as resources obtained at international capital markets upon the issuing of treasury bonds. The bank also takes part of an important number of co-financing agreements alongside other multilateral, bilateral, and private organizations.

The IDB group consists of three institutions, namely: the Inter-American Development Bank (IADB), the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF).

The Inter-American Development Bank (IADB) supports sustainable economic, social and institutional development in Latin America and the Caribbean, lending mainly to public institutions. It also supports private sector projects, especially in infra-structure and capital markets development. The three priority

areas supported by the IADB include the reduction of social inequality and poverty, promotion of economic reform and State modernization, and regional integration.

The Inter-American Investment Corporation (IIC) is a multilateral financing organization focusing on support for small and medium-sized businesses in Latin America and the Caribbean.

The Multilateral Investment Fund (MIF) promotes private sector growth through grants and investment, with an emphasis on microenterprise. It is an autonomous fund managed by the IDB, and in Brazil, supports four main areas seeking to: (i) invest in transportation, energy, infra-structure and drinking water; (ii) consolidate small and medium-size companies by providing access to venture capital funds; (iii) establish conflict-resolution mechanisms; and (iv) improve labor competitiveness.

The Bank works in four priority areas: advancing competitiveness through the support of policies and programs that boost the development of a country in an open and globalized economy; enhancing efficiency and transparency of public institutions so as to foster State modernization; investing in social programs that expand opportunities for the disadvantaged; promoting regional integration by setting up ties among countries which develop markets for goods and services.

The IDB supports only projects from its Latin American and Caribbean member-countries. Among the entities entitled to get IDB's direct funding are federal, state, and municipal governments, autonomous public institutions and civil society organizations with government endorsement. However, up to 5% of the Bank's loan portfolio can be channeled to private companies with no government guaranty.

7.3. THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT - IBRD

The IBRD is a multilateral financing institution, created in 1944, together with the International Monetary Fund (IMF) at the Bretton Woods Monetary and Financial Conference, held in order to develop a framework of economic and financial rules for the post-war era.

In its first years, the Bank used to fund specific projects and directed its actions to developed countries. With the recovery of Europe's economies and Japan in the 1960's, the IBRD went on to direct most of its resources to developing countries. With increasing financial imbalances and the economic deterioration observed in several countries, the IBRD started to contribute to structural adjustment programs as well, by imposing macroeconomic targets to bailed out countries. The IBRD has increasingly conditioned the provision of financial assistance on social commitments. The IBRD has 187 members, the same of the IMF.

In the 1950's, **the International Finance Corporation (IFC)** was created to foster sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments.

The World Bank Group was established in 1960, including the newly-created IDA and the IBRD. **The International Development Association (IDA)** is the part of the World Bank that helps the world's poorest countries. It aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living conditions. The World Bank's other lending arm – **the International Bank for Reconstruction and Development (IBRD)** – serves middle-income countries with capital investment and advisory services. IBRD and IDA share the same staff and headquarters and evaluate projects with the same rigorous standards.

Still in the 1960's, **the International Centre for the Settlement of Investment Disputes (ICSID)** came into scene to provide facilities for conciliation and arbitration of international investment disputes.

At the end of the 1980's, **the Multilateral Investment Guarantee Agency (MIGA)** joined the World Bank Group, with the mission of promoting foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty, and improve people's lives by providing political risk insurance (guarantees) to the private sector.

The expression World Bank, however, most commonly refers only to the IBRD and the IDA, institutions focusing on the credit activity intrinsically.

The World Bank Group does two classes of lending, Investment Lending and Development Policy Lending.

INVESTMENT LOANS:

Specific Investment Loans (SIL) - establishment and maintenance of productive assets and economic, social, and institutional infra-structure.

Technical Assistance Loans (TAL) – strengthening institutions, building institutional capacity in entities directly concerned with implementing policies, strategies, and reforms.

Learning and Innovation Loans (LIL) – loans of \$ 5 million or less, focusing on experimentation, learning and piloting in search of possible developmental solutions, prior to potential larger-scale operations.

Financial Intermediary Loans (FIL) - support financial sector reforms, used by financial intermediaries for loans provided to the market.

Emergency Recovery Loans (ERL) – support restoration of assets and production levels after an extraordinary event, such as war, civil disturbance, or natural disaster, seriously disrupting a borrower's economy. Rapid implementation within a limited period - usually 2 to 3 years.

Sector Investment and Maintenance Loans (SIM) – focus on public expenditure programs in particular sectors. They aim to bring sector expenditures, policies, and performance in line with a country's development priorities by helping to create an appropriate balance among new capital investments, rehabilitation, reconstruction, and maintenance.

Adaptable Program Loans (APL) – provide phased support for long-term development programs. They involve a series of loans that build on the lessons learned from the previous loan(s) in the series.

DEVELOPMENT POLICY LOANS⁴:

Structural Adjustment Loans (SAL) – support reforms intended to spur growth, efficient use of resources, and a sustainable balance of payments over medium and long term; usually deal with multi-sector macroeconomic issues, rapid disbursement.

Sector Adjustment Loans (SECAL) – support policy changes and institutional reforms in specific sectors; rapid disbursement based on pre-defined conditions.

Special Structural Adjustment Loan (SSAL) – support structural and social reforms by creditworthy borrowers approaching a possible crisis, or already in crisis. Those loans help countries to prevent crisis or, if one occurs, to mitigate its adverse economic and social impacts.

Programmatic Structural Adjustment Loans (PSAL) – support a medium-term government program (3 to 5 years) of policy reforms or institution building. Each loan is provided in the context of a multi-year framework of phased support.

Programmatic Sector Adjustment Loan (PSECAL) – similar to the PSAL, but focusing on sector reforms.

⁴ Development policy lending replaced "adjustment lending" in 2004. The overhaul reflected the need for streamlining conditionality and the Bank's acknowledgement that there is no single blueprint for reform that will work in all countries.

Rehabilitation Loans (RIL) – support government policy reform programs aimed at creating an environment conducive to private sector investment, where foreign exchange is required for urgent rehabilitation of key infrastructure and productive facilities.

OTHER LENDING INSTRUMENTS:

DRL - Debt Reduction Loans - help eligible highly indebted countries reduce commercial debt and debt service to a manageable level, as part of a medium-term financing plan in support of sustainable growth. The focus is on rationalizing the country's external commercial bank debt, by either converting it to lower-interest instruments or buying it back at a discount.

Guarantees - promote private financing in borrowing member countries by covering political, regulatory, or government performance risks the private sector is not normally in a position to absorb or manage. They can be project-based or policy-based.

Sector-Wide Approaches (SWAs) – Support sector reform programs based on long-term development goals. They are a partnership for the benefit of wide-ranging programs carried out by a country. They usually encompass a whole sector, especially social areas.

7.4. ANDEAN DEVELOPMENT CORPORATION - CAF

CAF is a multilateral financial institution established in 1970 that supports sustainable development and regional integration of its shareholder countries. CAF's headquarters are in Venezuela.

CAF has become a source of several financial products and services to public and private sectors, with an extensive portfolio of clients comprising shareholder countries, financial institutions, corporations, and State companies. Its

managing policy integrates social and environmental variables and includes efficiency and sustainability criteria in its operations.

CAF is currently composed of 18 countries in Latin America, the Caribbean and Europe.

Its main shareholders are (a) the five member countries of the Andean Community of Nations (CAN): Bolivia, Colombia, Ecuador, Peru, and Venezuela; (b) 13 (thirteen) other members: Argentina, Brazil, Chile, Costa Rica, Spain, Jamaica, Mexico, Panama, Paraguay, Portugal, Dominican Republic, Trinidad & Tobago, Uruguay; (c) plus 14 (fourteen) private banks in the Andean region.

CAF's main initiatives are closely related to the fundamental pillars of its mission: reinforcing and expanding its role as sponsor of Latin-American integration while emphasizing the consideration of environmental and social factors to ensure the sustainable use of natural resources in all its operations.

CAF provides a wide range of services similar to those of a commercial, development, and investment bank, particularly those leveraging the competitive advantages of the Corporation in the areas of infra-structure, industry, and financial systems, conducive to the synergy of public and private initiatives in shareholder countries and that enhance its catalyst, innovative, and integrator role in the region.

Broadly speaking, the products and services provided by CAF are: short, medium, and long-term loans, project structuring and funding with no resources or with limited guarantee, co-financing in partnership with other multilateral organizations, financial advisory and banking services, guarantees and collateral, shareholdings, treasury services, technical cooperation, and strategic programs.

7.5. INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT – IFAD

The IFAD, linked to the Food and Agriculture Organization (FAO), United Nations, was created in 1977 from the deliberations of the World Food Conference held in 1974. It aims to mobilize additional financial resources for increasing agricultural production in developing countries, focusing especially small farmers, landless workers and other segments of the rural poor. Their specific mission is to combat hunger and rural poverty in developing countries, the improvement of food supply and poverty alleviation through the development and funding of projects that can increase the income level of these populations.

7.6. FINANCIAL FUND FOR THE DEVELOPMENT OF THE RIVER PLATE BASIN - FONPLATA

In 1969, Brazil, Argentina, Bolivia, Paraguai, and Uruguai signed the Plate Basin Treaty, from which originated, in 1977, the FONPLATA, Financial Fund for the Development of the River Plate Basin, with headquarters in Santa Cruz de La Sierra, Bolivia.

The Constitutive

The Agreement Establishing the FONPLATA, which consists of a Board of Governors, a Board and an Executive Secretariat was signed in Buenos Aires in June 1974 and entered into force in October 1976.

Its mission is to support technically and financially harmonious development initiatives and integration of member countries of the Plata Basin, which is the longest waterway in Latin America, including the basins of the Parana, Paraguay, Uruguay and La Plata, covering approximately 3.2 million m² of the territories of Argentina, Bolivia, Brazil, Paraguay and Uruguay.

The main functions of FONPLATA are: (a) granting loans and grant guarantees and sureties, (b) manage resources for demand of its members and engage in all activities necessary to meet its fundamental goals, and (c) to support financing of studies pre-investment, identifying opportunities for the region of interest.

7.7. Global Environment Facility - GEF

The Global Environment Facility - GEF is an independent financial organization, established in 1991, aiming to promote international cooperation and fund allocations, donations, shares in six main areas: biodiversity, climate change, international waters, destruction of the ozone layer ; land degradation and persistent organic pollutants.

7.8. JAPAN BANK FOR INTERNATIONAL COOPERATION - JBIC

The Japan Bank for International Cooperation (JBIC), is a Japanese public financial institution, and was created on October 1, 1999, through the merging of the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund of Japan (OECF).

The JBIC is currently the international wing of Japan Finance Corporation (JFC), administered by the Ministry of Finance and established on October 1, 2008.

The bank is wholly owned by the Japanese government, and its budget and operations are regulated by the JBIC law. It is headquartered in Tokyo and operates in 18 countries with 21 offices.

The main purpose of the institution is to promote economic cooperation between Japan and overseas countries, by providing resources to foreign investment and by fostering international commerce. It also has a major role in promoting Japanese exports and imports, and the country's activities overseas.

The bank's presence can be seen both in developed and developing countries. It tries to contribute to the stability of the international financial order and to the promotion of sustainable development. It follows a policy of not competing with ordinary financial institutions.

As it aims at sustainable development, JBIC is concerned about social and environmental issues, and requires Environmental Impact Assessment studies to provide funding to any project.

JBIC has mainly two ways of performing its loans: International Financial Operations (IFO) and Official Development Assistance (ODA).

IFO Operations:

The IFO operations include loans and equity participation in overseas projects of Japanese corporations, therefore contributing to Japanese activities overseas. These operations are aimed at both developed and developing countries.

The JBIC's financing operations are: Export Loans, Import Loans, Investment Loans, Untied Loans, Bridge Loans, Equity Participation, and Studies and Research Activities. The JBIC's financing operations also utilize various financial instruments and schemes other than loans such as Guarantees and Acquisition of Bonds and Securities.

There are 3 large groups of IFO borrowers in Brazil:

- Exporter/Importer/Investor in Japan;
- Importer/Financial Institution/Japanese Subsidiary in Brazil; and
- Federal/State/Municipal Governments and Government Institution in Brazil.

Interest rates for IFO loan operations are subject to the blend of costs for raising funds in the financial market with the loan rate granted by the Japanese government. Consultation with the JBIC regarding current conditions for the type of financing sought is advisable. The repayment period is set up according to the project's conditions, ranging from 3 to 10 years.

Next we provide an example of how to proceed to obtain an IFO loan:

- Contact the JBIC;
- Chose type of financing operation;
- Analyze project viability;
- Borrower or project credit risk analysis;
- Negotiation of contract, guarantee, and conditions;
- Approval by JBIC board;
- Signing of Contract; and
- Monitoring of project, including environmental aspect.

ODA Operations:

ODA operations are aimed mainly at developing countries. The JBIC acts as a resource administrator by providing subsidized financial conditions to support economic infrastructure improvement, financial and economic stability, poverty reduction and social development, including human resource capacity building. Projects based on ODA operations shall be sent, basically, directly from the Brazilian government to the Japanese government through diplomatic channels. It is up to the Japanese government to select the projects to be funded, according to guidelines considering viability and relevance within the context of the country, based on JBIC analysis.

Among ODA operations, Research funds are intended to provide a qualitative improvement of the execution and usefulness of the project, from its inception to following it up after conclusion. There are 4 types of complementary assistance: 1) SAPROF: to design the project; 2) SAPI: to implement the project; 3) SAPS: for project sustainability; and 4) RESEARCH FOR PROCUREMENT: to purchase goods and services.

ODA borrowers in Brazil are the Federal, State, and Municipal governments and government institutions. Interest rates are reviewed on a yearly basis, according to fluctuations in costs to raise ODA funds.

7.9. KREDITANSTALT FÜR WIEDERAUFBAU - KFW

The KFW - Kreditanstalt für Wiederaufbau, created in 1948, is an official agency of the German Government, with headquarters in Frankfurt.

In 1949, the KFW already counted on several funding sources at its disposal to finance the most pressing German reconstruction projects. Currently, in the capacity of central credit institution of the German Federation and its states, it is an official development bank for the domestic economy and for developing countries.

In Brazil, the KFW has been funding environment, health, and sanitation projects, mainly in the Northeastern and Northern Regions of the country.

Bilateral cooperation with developing countries, supported by Federal funds, includes:

- a) Financial Cooperation:** consists of non-refundable loans and financial contributions. The KFW assesses projects in terms of their development policy, checks if they need to be enhanced and intervenes in their development. Financial Cooperation funds are intended for: (a) social and economic infrastructure programs; (b) investment in industry, agriculture, and livestock; (c) environment and natural resource preservation projects; (d) projects for small and medium-sized companies; and (e) funding studies and services.
- b) Other Cooperation Instruments:** involve the German Service for Social and Technical Cooperation, the German Political Foundations (for stronger trade unions, parties and cooperatives, among others), the Non-Governmental Organizations, and the Ecclesiastical Institutions.

7.10. NORDIC INVESTMENT BANK - NIB

The Nordic Investment Bank, whose operations started in 1976, is an international financial institution owned by its Nordic and Baltic members: Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. The Bank is based in Helsinki, Finland, and has regional offices in Singapore, Copenhagen, Stockholm, Oslo, and Reykjavik.

The institution's goal is to provide long-term loans and guarantees on competitive market terms to support public- and private-sector projects, in and out of the Nordic and Baltic region, that have suitable technical evaluation and good risk rating. Priority, however, is for investment projects focusing on the environment and on the exports of countries in the Nordic and Baltic region.

The NIB focuses its operations on Project Investment Lending (PIL) which, as a rule, is granted to governments but which may, however, and with no need for government guarantee, reward the private sector.

The NIB funds up to 50% of the total cost of projects. As provided by its bylaws, 77% of loans should be made to Nordic and Baltic countries and the remaining 23% to countries in other regions.

In 1999, Brazil signed a Financial Cooperation Frame-Agreement with the Nordic Investment Bank, in an attempt to establish the foundations for a long-term partnership in order to give the country access to lending for projects of shared interest.

7.11. PILOT PROJECT FOR PROTECTING BRAZILIAN TROPICAL FORESTS - PPG7

The PPG7 was created in order to enhance and leverage the environmental benefits of Brazilian tropical forests in a way which is compatible with the country's development. It represents a unique model for cooperation involving the Brazilian government, civil society, and the international community.

The PPG7 was instituted by Decree nº 563 of June, 1992 and modified by Decree nº 2,119 of January, 1997. The Federal government is charged with the responsibility of its execution, through the Ministry of the Environment (Program Coordinator), the Ministry of Justice, and the Ministry of Science and Technology. The World Bank, the European Community, and members of the G-7 are partners as well.

The mission of the Pilot Program is contributing for the development and implementation of policies resulting in the preservation of natural resources and in the promotion of sustainable development in the Brazilian Amazon and in the Atlantic Coastal Forest (*Mata Atlântica*).

Its specific goals are: (a) create, validate, and disseminate knowledge produced from experiences developed within the scope of the Brazilian Amazon and the Atlantic Forest; (b) influence the formulation and implementation of sustainable development public policies; (c) support the expansion of successful models and experiences; (d) build the capacity of public, private, and civil organized civil society institutions to implement policies and apply new knowledge.

Lines of action of the Pilot Program include: (a) demonstration and experimentation of forms to protect forests and use them in a sustainable way; (b) protection and preservation of natural resources; (c) institutional build-up of governmental and non-governmental areas concerned with the protection of Brazilian tropical forests; (d) sustainable development oriented scientific research; (e) production and dissemination of strategic lessons for the preservation of tropical forests which are relevant to Brazil and other regions.

7.12. MAIN OPERATION AREAS OF FINANCING INSTITUTIONS

MAIN OPERATION AREAS OF FINANCING INSTITUTIONS											
AREAS	EIB	IDB	IBRD	CAF	IFAD	FONPLATA	GEF	JBIC	KfW	NIB	PPG7
Agriculture, Livestock and Fishery	X	X	X	X	X	X		X			
Science and Technology		X	X	X				X			X
Communications	X	X	X	X		X		X	X	X	
Credit*	X	X	X	X				X		X	
Education		X	X	X		X		X			
Energy	X	X	X	X		X	X	X	X	X	
Environment	X	X	X	X	X	X	X	X	X	X	X
Mining	X	X	X	X				X			
State Reform		X	X			X					
Sanitation	X	X	X	X		X		X	X		
Health		X	X	X		X		X	X	X	
Transports	X	X	X	X		X		X			
Tourism		X	X	X				X			

* Intended for financial institutions to pass resources on to the private and/or public sector

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