

# **Summary Record**

## **of the Negotiations on Development Cooperation between the Government of the Federative Republic of Brazil and the Government of the Federal Republic of Germany held in Brasília on 21 to 23 November 2007**

### **1. Introduction**

Negotiations on development cooperation between the Government of the Federative Republic of Brazil and the Government of the Federal Republic of Germany were held in Brasília on 21-23 November 2007. The delegation of the Federative Republic of Brazil was headed by Ambassador Luiz Henrique Pereira da Fonseca, Director of the Brazilian Agency for Cooperation of the Ministry of External Relations. The delegation of the Federal Republic of Germany was headed by Dorothea Groth, Head of the South America Division in the Federal Ministry for Economic Cooperation and Development (BMZ).

On 22 November, a joint session was held in conjunction with the 26th Mixed Commission on cooperation in the area of scientific research and technological development. This session was opened by the State Secretary of the Federal Ministry of Education and Research, Professor Meyer-Krahmer.

Lists of the two delegations are attached as Annexes 1 and 2.

The Ambassador of the Federal Republic of Germany Prot von Kunow, Dorothea Groth (BMZ) and Ambassador Luiz Henrique Pereira da Fonseca opened the negotiations with statements.

The negotiations took place in an open atmosphere of constructive cooperation. Based on the results of the preparatory consultations held in Brasília on 29 June 2007, the delegations reached agreement on the allocation of the funds available. They discussed ongoing and future cooperation and other relevant issues.

The results of the negotiations are recorded below:

### **2. General context for development cooperation and policy dialogue**

#### ***2.1. Opening statements***

The opening statement of the Brazilian delegation is attached as Annex 3.

The opening statement of the German delegation is attached as Annex 4.

## **2.2. General context and prerequisites for development cooperation**

Both sides recognized the need for accelerated administrative procedures within the framework of development cooperation. Both sides expressed their shared commitment to conclude the pending agreements as swiftly as possible and to launch the multi-project exchanges of notes (Technical Cooperation) and the Financial Cooperation agreements required after the present negotiations.

In the working group on the acceleration of Financial Cooperation government agreements, which was set up at the 2006 government consultations, the Brazilian side has drawn up a preliminary proposal for a Financial Cooperation (FC) framework agreement, its purpose being to avoid the individual approval of each FC agreement. The German side welcomed the idea of combining an FC framework agreement with specifications for each loan or grant. Interministerial consultation about this idea has been launched in Germany. Both sides agreed to continue discussing the substantive aspects and the formal and procedural requirements to be fulfilled for specific activities.

Notwithstanding the desired general improvement of procedures through an FC framework agreement, both sides confirmed their intention to swiftly conclude and/or ratify the FC agreements that are currently pending.

The following FC government agreements or exchanges of notes are currently pending and being processed by the Brazilian side:

- Renewable Energies Investment Program (Eletrobrás) (Installment I, €13.29 million)
- Tropical Forest Sector Reform Program
- Basic Sanitation Program PiauÍ II
- Basic Sanitation Program Ceará II/III

On the German side, the following FC government agreements or exchanges of notes are currently pending:

- Renewable Energies Investment Program (Eletrobrás) (Installment II, €23.94 million)
- Renewable Energies Credit Program (BNDES)
- 2003/2005/2006 multi-project agreement on the following projects: Sustainable Forest Management in the Amazon Region, Fund for Protected Areas (FAP/ARPA), Support for the International AIDS control Cooperation Programme, and Amazon Region Protected Areas Project (ARPA II).

From Germany's point of view, the Technical Cooperation (TC) umbrella subsidiary arrangement for 2003 can be concluded. The Brazilian side expressed its willingness to finalize the referred arrangement by upcoming January. Both sides agreed, that this is a model for the formulations of the 2005 and 2007 umbrella subsidiary arrangement. The

timely conclusion of these arrangements should facilitate the continuation of TC support for the projects that had been agreed.

The exchange of notes relating to the GTZ/KfW office is currently being examined in light of the final proposals for amendments submitted by the Brazilian side and will be concluded as swiftly as possible as well, so as to give GTZ and KfW autonomous status in Brazil.

As the Double Taxation Agreement (DTA) was terminated on 31 December 2005, there has no longer been a basis for the avoidance of double taxation of CIM grants for Integrated Experts. The Brazilian side confirmed that no alternative arrangement for guaranteeing the avoidance of double taxation of CIM grants could be found unless a new agreement be reached. The German side regretted the fact that this meant that no new Integrated Experts could be sent to Brazilian organizations under this program. However, current Integrated Expert assignments are to be completed, and it is still possible to place new Experts at regional or international institutions if these institutions are able to guarantee that their employees will be exempted from taxation. Once a new DTA has been concluded, there will be talks about relaunching the program in Brazil.

### ***2.3. Priority areas for cooperation***

Since 2000, cooperation has focused on two priority areas: “Environmental protection and management of Natural Resources/Energy” and “Integrated Regional Development in Disadvantaged Regions”. Based on a portfolio analysis drawn up by the German Development Institute (GDI), a discussion process was launched at the 2006 consultations on how to adjust the cooperation program in view of Brazil's advanced status of development and its prominent global and regional role. Both sides agreed that future cooperation will focus on the fields of “Environmental protection and management of Natural Resources” and “Energy” (with focus on Renewable Energy and Energy Efficiency). In addition, it is envisaged to continue to engage in trilateral cooperation and to increase cooperation in the area of science and technology. The program in Northeastern Brazil will be completed with a final TC phase.

## **3. Dialogue on bilateral development cooperation; commitments**

### ***3.1. Volume of commitments and reprogrammed funds***

The total volume of bilateral Technical and Financial Cooperation since cooperation began in 1963 amounts to €1,273,140,220.96. The Government of the Federal Republic of Germany undertakes to increase the total amount and to provide the Government of the Federative Republic of Brazil with a new amount of €92,000,000 for bilateral Technical and Financial

Cooperation for the period of 2007-2008. This comprises €80,000,000 for Financial Cooperation projects/programs (€24,000,000 of this amount was already committed in 2006) and €12,000,000 for Technical Cooperation projects/programs. In addition, approx. €16,450,000 is available from reprogrammed commitments of earlier years.

Under Financial Cooperation, the following funds, amounting to a total of €14,070,083.91, shall be reprogrammed:

- €11,070,083.91 (loan, committed in 1980)  
from the Sanitation Program Natal (project no. 1993.6601.4)  
as well as €3,000,000 (grant, committed in 2004)  
from the Sanitation Program Natal II (no project no.)  
to be dedicated to projects in the area of Renewable energy and energy efficiency

Under Technical Cooperation, the following funds, amounting to a total of €2,380,000, shall be reprogrammed:

- €2,000,000 (committed in 2005)  
from the Program for Integrated Regional Development (project no. 2004.2084.4)  
to the Study and Expert Fund (SEF; project no. 1995.3585.7)
- €380,000 (committed in 2004)  
from the "Support for the Monitoring and Analysis of the PPG7-AMA" project (project no. 2002.2271.1)  
to the line 3 - Regional Planning and Development project (combined FC/TC project; project no. 2005.2168.2)

The total volume of funding available for Technical and Financial Cooperation projects and programs is thus approx. €108,450,000.

## ***3.2. Environmental protection and natural resource management***

3.2.1. Protection and sustainable management of tropical rain forests (including contribution to the Pilot Program to Conserve the Brazilian Rain Forests, PPG7)

### 3.2.1.1. Dialogue on the priority area

Both sides welcomed the fact that deforestation in the Amazon region had been reduced by about 50% in 2005-6 as against 2003-4 levels. Nevertheless, the German side expressed its concern that recent partial figures may suggest an increase in deforestation. The Brazilian side provided information about the further steps that are being taken maintain the decreasing trend in deforestation, such as implementation of the forestry law and of the Mata Atlântica law as well as the establishment of the Brazilian forest service, and also clarified

that it would be premature to make any assertion concerning recent trends before official data is available.

From the German side's point of view, the Sustainable Amazon Plan (*Plano Amazônia Sustentável, PAS*), which represents a guideline for sustainable development in the Amazon region, could play a special role as it addresses a combination of environmental and development issues across individual ministries. The German side asked the Brazilian side about the current status of the process for adopting the PAS, and whether the PAS could serve as a political and programmatic framework for future international contributions, succeeding the PPG7, with a view to disseminating the successful approaches developed under PPG7 and supporting the implementation of Brazilian policies. The representative of the Ministry of Environment explained that PAS is a set of strategic guidelines that help formulating government policies for the Amazon. The "Programa Amazônia" is intended to be an operational part comprising the social – environmental agenda. Aside from the environmental policy, PAS will help in formulating other policies of the Federal Government.

PPG7 will be completed, although the execution of some projects may last until 2010, with the closing of the Rain Forest Trust Fund most probably in 2009, after it had been used as a vehicle for international donor support for the protection and the sustainable use of Brazil's rain forests since 1993. From the German side's point of view, it would be important that the future program be designed in such a way that all relevant projects and programs can be flexibly included, new donors can become interested and active (including NGOs such as WWF and Conservation International), and an efficient coordination mechanism is established by the Brazilian side. The German side will continue its intensive efforts to coordinate with other donors, especially with the World Bank and the EU.

The contribution made by German development cooperation in the tropical forest in the Amazon region will continue to focus on three areas:

1. Nature reserves and sustainable resource use  
(support for the demarcation, establishment, enlargement and management of nature reserves - "*Unidades de Conservação*" - as well as support for sustainable forms of resource use)
2. Demarcation and protection of indigenous lands
3. Regional planning and development

From the German side's point of view, it is particularly important that the efforts in the said areas be supported through the organizational and policy developments, agreed upon in the Sector Adjustment Loan for the environmental sector (SAL/TAL).

The protection of the Mata Atlântica, is supported by German development cooperation in direct cooperation with the MMA and 6 Brazilian states, amounting to a support of about 90,8 Million Euro. This involves integrated approaches to biodiversity protection and support to a multitude of initiatives in cross-cutting areas, such as institutional integration or working to make environmental services economically useful.

The German side expressed its concern about the no prorogation of contracts of a lot of temporary staff in the Ministry of Environment due to the finalizing of their contracts. The Brazilian side stated that an agreement between the Ministry of Environment and the Ministry of Planning was reached to put in force before the end of 2007 a provisional measure for the prorogation of these contracts for another year. The Brazilian side also informed about a planned concourse for new staff during 2008.

### 3.2.1.2. Financial Cooperation and Technical Cooperation in the strict sense

A list of ongoing projects is attached as Annex 5.

The two sides discussed the following projects and programs:

#### Fund for Protected Areas – FAP/ARPA (FC)

(project no. 2005.6601.8) – New commitment: €10,000,000 (grant; continuation)

The additional resources will be used to increase the capital of the protected area fund administered by the Brazilian FUNBIO foundation, the *Fundo para Áreas Protegidas* (FAP). The total German contribution to that fund thus amounts to €20,000,000 (10 million € being a 2005 commitment). The income of the fund is to be used to finance, on a long-term basis, the operating and consequential costs of protected areas in the Amazon region that were set up as part of Brazil's ARPA program. If possible, the additional resources are to be used as matching funds to mobilize further donors' contributions to the fund. So far, the fund has received contributions from the GEF, WWF, and Brazilian enterprises.

#### Protection of the Atlantic Coastal Forest in Minas Gerais (FC)

(project no. 1998.6721.9) – New commitment: €8,000,000 (grant; continuation)

The project supports regional planning on the basis of ecological goals for the Atlantic costal forest (*Mata Atlântica*) in Minas Gerais. The goals of the project are to create a basis for the long-term preservation of the protected areas supported by the project and to encourage sustainable land use practices in the project region. The recipient of the support is the State of Minas Gerais, represented by the Secretariat of the Environment, with the State Forestry Institute (IEF) acting as executing agency. Germany's support for this project totals

€15,669,378.22 including this new commitment. It is envisaged to expand the project region during phase II so as to include the entire coastal forest belt of Minas Gerais. Further protected areas are to be structured, the monitoring and licensing system is to be further improved, and monitoring capacity is to be made more efficient. It is planned to consolidate or test innovative approaches, for example regarding the introduction of forest-related incentive mechanisms, reforestation and regarding decentralization.

Combined FC/TC Project: Line 1 - Promotion of Protected Areas and Sustainable Use (TC)

(project no. 2005.2166.6) – New commitment: €4,000,000 (replenishment)

The additional resources are to be used to implement activities at State level both for the protection and for the sustainable use of resources, for example in the vicinity of BR-163 and Carajás forest district, and to build capacity for environmental management. Support will also be provided with a view to building the capacity of administrative bodies for protected areas in the Amazon region ecocorridors, and with a view to harmonizing the processes and structures for protected area management with the standards introduced by the ARPA project (such as results-based protected area management, monitoring of progress and of the consolidation of protected areas). Implementation of the project started in early 2007. An €8,500,000 commitment for the project was made in 2005.

Combined FC/TC Project: Line 2 - Demarcation and Protection of Indigenous Lands (TC)

(project no. 2005.2167.4) – New commitment: €1,000,000 (replenishment)

After the successful demarcation of indigenous lands, although some are still to be demarcated, the focus is to develop appropriate management of the areas and to build local capacity to that end. The additional resources are to be used to expand and intensify the protection and management activities relating to indigenous lands in the Legal Amazon, especially in the States of Acre, Amazonas, Rondônia, Pará and possibly Amapá. A €2,500,000 commitment for the project was made in 2005.

Combined FC/TC Program: Natural Resources Policy (NRPP/SPRN) (FC)

(project no. 1995.6524.3) – Reprogramming: about €5,000,000

The project is to be terminated after the completion of the activities that have been formally agreed and are under way. The two sides agreed to reprogram the remaining balance, which is estimated at about €5 million. The German side proposed that these funds be reprogrammed for the demarcation and protection of indigenous lands. The Brazilian side expressed its interest to not define at this juncture the area to be benefitted by these

resources in view of other demands worth to be analyzed. A project proposal will be submitted to the German side by March 2008.

#### Combined FC/TC Program Sustainable Forest Resources Management (Promanejo) (FC)

(project no 1996.6581.1) – ongoing (10.225.837,62 €)

(project no 2000.6633.2) – ongoing (5.112.918,82 €)

The Brazilian side informed that the project will be terminated at the end of 2007, after all agreed activities being completed. However, the available FC funds will not be completely used within the project. Both sides agreed to reprogram the remaining balance from the first phase, with preference together with the remaining funds from NRPP/SPRN.

The German side informed that the remaining balance from the second phase, estimated at € 1.1 million, cannot be reprogrammed due to a clause in the corresponding Intergovernmental Agreement and will lapse.

#### Tropical Forest Sector Reform Program (FC)

(project no. 2004.65.864) – €40,000,000 (integrated composite financing)

The Brazilian side stated that, for fiscal policy reasons, it would, in the medium term, probably not make use of the second installment of the World Bank's Programmatic Reform Loan for Environmental Sustainability, which was to be co-financed by this German FC program. However, the Brazilian side continues to be interested in the FC program. Both sides agreed to examine, within the near future, whether it is possible to disburse the FC funds based on a joint (Brazilian side, World Bank, BMZ/KfW/GTZ) review of target ("trigger") achievement and based on agreement by all sides. Both sides agreed, that in case an agreement cannot be reached by the end of April 2008, the funds will be reprogrammed.

#### Sustainable Forest Management in the Amazon Region (FC)

(project no. 2003.6665.8) – €15,000,000 (grant)

Both sides underlined their interest in an FC project to support sustainable forms of forest management in the Amazon region. The project is to be based on the law on public forest management adopted in 2006 (*Lei de Gestão das Florestas Públicas*).

The Brazilian side informed that the World Bank financing for this initiative did not materialize as expected in view of its disadvantageous conditions to the Brazilian side. The German side stated that this will increase considerably the risk for a potential German commitment. Both parties agreed that Brazil will submit by March 2008 a detailed project proposal for the

utilization of grants committed by the German Government. This project proposal should be focused on clearly defined results and should count on the assistance of one short-term expert on its elaboration.

#### Support for the Monitoring and Analysis of the PPG7-AMA (TC)

(project no. 2002.2271.1) – Reprogramming: €380,000

At the 2005 government negotiations, €380,000 were committed for the AMA project (Support for the Monitoring and Analysis of the PPG7-AMA). However, the project has since been completed and those parts that have not been completed are being continued as part of the Promotion of Protected Areas and Sustainable Use project (project no. 2005.2166.6). The two sides therefore agreed to reprogram the funds for the benefit of the new combined FC/TC project concerned with Line 3 - Regional Planning and Development in the Amazon Region (project no. 2005.2168.2), with a view to providing support to monitoring activities related to the analysis and observation of land use developments (including the refinement of information collection techniques) and to the implementation of land use legislation.

2006 commitment:

#### Combined FC/TC Project: Amazon Region Protected Areas Program – ARPA (FC)

(project no. 2001.6657.9) – 2006 commitment: €10,000,000 (continuation)

The additional resources (the German FC contribution to the program's first phase was €17,669 378.22) are intended to cofinance the second phase of the Brazilian protected areas program, ARPA, notably for the further consolidation of the protected areas established during the first phase. The German side expects that the Brazilian side will apply to the Global Environment Facility (GEF) for cofinancing of the second phase of ARPA. Both sides emphasized their interest in swift project preparation.

### 3.2.1.3. Technical Cooperation in the broad sense and regional projects/programs (for information)

In the area of tropical forest protection, **InWEnt** is planning to carry out a regional project concerned with tropical forest protection and sustainable forest development in the Amazon region, providing support to regional policies and management activities with a view to fostering the exchange of experience at the regional level and disseminating good practices through dialogue meetings and targeted training (envisaged overall volume: €1,044,000).

Four **CIM** Integrated Experts are active in the areas of sustainable tropical rain forest management, institutional capacity building and support for international cooperation, working with the following partner institutions: Center for International Forestry Research (CIFOR), *Centro Internacional de Agricultura Tropical (CIAT)/Amazon Initiative*, *Instituto Amazônico de Manejo Sustentavel (IARA)* and the *Universidade Federal Rural da Amazônia (UFRA)*.

**DED** concentrates its activities related to this priority area on the State of Pará, supplemented by advisory services provided in the border region of the State of Acre and in Manaus. DED provides advice on organizational development, knowledge management, agroforestry, improvement of the processing and marketing of gathering-based and agricultural products (such as cocoa), establishment and management of extractive reserves and protected areas, as well as regional planning. 18 development workers, financed by DED are working in the priority area (including two assignments relating to the region at large), as well as 10 local experts who are partly financed by DED. Two further development worker assignments are to be prepared and staffed before the end of this year.

**For information: Regional (Latin America in general) TC projects**

Strengthening Indigenous Organizations in Latin America

The overall goal of this project is to achieve the following: indigenous people's organizations effectively assert their rights and views within their countries and in the sphere of international cooperation. The project consists of the following components: (1) institutional capacity-building through thematic networks, (2) sustainable support for innovative solutions, and (3) mainstreaming indigenous issues in German development cooperation. Project duration: November 2006 to October 2010; German contribution: €4,750,000.

3.2.1.4. Future cooperation in the priority area

The Brazilian side presented its ideas on how to continue international cooperation for the protection and sustainable use of Brazil's Amazon forest and the Mata Atlântica, especially its plans to coordinate international donor contributions to the successor program to PPG7 and to create new coordination mechanisms. The Brazilian side described ways in which it could, in future, meet the challenges involved in developing procedures for cooperation between relevant ministries and with the States regarding tropical forest conservation. The German side, being the largest bilateral donor to PPG7 so far, underlined its readiness to continue its involvement in supporting the preservation and sustainable use of tropical forests, notably in the Amazon region. The Brazilian side took note with satisfaction the

German explanation, nevertheless the Brazilian side would like to emphasize its desire that the “Mata Atlântica Bioma” be contemplated in future cooperation.

The Chico Mendes Institute expressed its interest to receive technical and financial support for its “Projeto Manguezais” (mangrove project) which includes the following main activities: recovery of depredated areas, conservation program on the whole area, developed marine productive fishery chain, social tool with local communities – social carbon program, research programs with local universities.

Both sides agreed that in analytical and planning work, greater attention will be given to the causes and impacts of climate change.

### 3.2.2. Renewable energy/energy efficiency

#### 3.2.2.1. Dialogue on the priority area

Both sides confirmed their commitment to work together in increasing the share of renewable energy in the energy supply, as decided at the International Conference for Renewable Energies (Renewables 2004) held in Bonn in June 2004. The joint statement adopted at the meeting between the G8 and the Group of Five (which includes Brazil), too, contains a clear commitment to increased support for renewable energy and energy efficiency.

A Brazilian-German agreement on cooperation in the energy sector with focus on Renewable Energy and Energy Efficiency is currently under negotiation. Both sides agreed that the contributions made through development cooperation in the areas of renewable energies and energy efficiency should serve to help implement that agreement.

#### 3.2.2.2. Financial Cooperation and Technical Cooperation in the strict sense

A list of ongoing projects is attached as Annex 5.

The two sides discussed the following projects and programs:

##### Combined FC/TC Project: Renewable Energies Credit Program (BNDES) (FC)

(project no. 2006.6623.0) – Reduced-interest support/addicional funds

- New commitment: €20,000,000 (reduced-interest loan)
- New commitment: €18,000,000 (reduced-interest loan from the Special Facility for Renewable Energies and Energy Efficiency)
- 2006 commitment: €14,000,000 (reduced-interest loan from the Special Facility for Renewable Energies and Energy Efficiency)

The total reduced-interest development loan to BNDES is €52,000,000.

The program comprises the financing of small hydropower stations through Brazil's national development bank (*Banco de Desenvolvimento Econômico e Social, BNDES*). The program is intended to contribute to environmental and climate protection (overall goal). The program goal is the generation of power in an efficient and ecologically sound manner on the basis of renewable energy sources. The program is also intended to launch a dialogue process with BNDES so as to intensify cooperation in the area of renewable energy and energy efficiency beyond this first endeavor.

Combined FC/TC Project: Renewable Energy and Energy Efficiency (new project) (TC)  
(planning no. 1517) – New commitment: €4,000,000

This project builds on two earlier projects: Renewable Energies in the North and North-East (project no. 2001.2511.2) and component two (energy efficiency and eco-efficiency) of the Energy and Environmental Management program (project no. 2004.2081.0).

Through the new project, advice is to be provided to Brazilian programs in support of renewable energy utilization, and the enhancement of energy efficiency in selected consumption sectors. In this way, the project fosters goals related to global structural policy (such as climate protection, energy security, access to clean energy, risk minimization). Moreover, the project is intended to help build stable cooperative relations between German and Brazilian partners so as to build innovative capacity among energy sector players and to support and/or initiate Brazilian-German cooperative endeavors, both between enterprises and between institutions.

Potential executing agencies for this project could be, among others, Eletrobrás (current partner for the said "Renewable Energies in the North and North-East" project) or the Ministry of Mines and Energy (MME).

### 3.2.2.3. Technical Cooperation in the broad sense and regional projects/programs (for information)

**InWEnt** is carrying out a Mercosul project on renewable energy which will end in 2008 (€80,000 per year). InWEnt is also involved in the development of mechanisms for the transfer of environmental technology at the local level and in industry, as well as in expert groups working on openings for wind and biomass projects and on the adjustment of support regulations and CDM rules.

One important component of the regional InWEnt program for climate protection and development in Mercosul through sustainable energy supply (2005-8) is constituted by efforts to foster a dialogue on energy policy. Since 2006, an international leadership training

program on the utilization of wind energy has been under way, reinforcing these goals. Its total volume is €1,315,000.

Starting in 2008, further dialogue meetings are planned within the framework of a new project, covering, among other things, global climate protection and energy policy.

**DED** is financing two project workers (partly based on cooperation with GTZ) dealing with renewable energy. They are involved in encouraging family farms to produce castor oil within the context of the national biodiesel program (*Programa Nacional de Produção de Biodiesel*).

For Information: **Regional TC projects:**

Energy Partnership with the Inter-American Development Bank (IDB)

(Total German contribution: €10,600,000)

At the Renewables 2004 conference in Bonn, the BMZ and the IDB signed a Strategic Partnership Agreement on Renewable Energies. Their partnership has two goals: first, borrowing countries in Latin America and in the Caribbean are to focus their energy policies more on renewable energy sources, and second, the proportion of renewable energy and energy efficiency support in the IDB's portfolio is to be increased. The support includes components such as advice for IDB staff on elaborating and implementing the Bank's new Sustainable Energy and Climate Change Initiative (SECCI), advice for member countries on implementing renewable energy and energy efficiency activities within the framework of SECCI, the elaboration of studies, change management, and the organization of seminars and training programs.

#### 3.2.2.4. Future cooperation in the priority area

Both sides agreed to further expand their cooperation in the area of renewable energy and energy efficiency so as to contribute to the implementation of the Brazilian-German energy agreement currently under negotiation. This is an area where new financing instruments can be used, such as Financial Cooperation development loans (which are concessional because German cooperation funds from the Special Facility for Renewable Energies and Energy Efficiency are being used for interest subsidization).. The German side would welcome project proposals from the Brazilian government and relevant executing agencies.

Both sides underlined that it would be desirable for the two FC projects that are currently being prepared (with BNDES and Eletrobrás) to start as soon as possible. The amount of about €14.07 million is available for a new project (cf. 3.4.2., reprogramming of Sanitation Program Natal).

### **3.3. Trilateral Cooperation**

#### 3.3.1. Dialogue on the priority area

Both sides underlined their interest in intensifying their efforts in this area of cooperation, which was agreed as a new area in 2005.

#### 3.3.2. Financial Cooperation and Technical Cooperation in the strict sense

##### Trilateral Cooperation Program (TC)

(planning no. 1039) – New commitment: €2,500,000 (new project)

Based on the pilot activities prepared through the Study and Expert Fund, the two sides agreed to carry out a program in support of Brazil's South-South cooperation efforts. The program is intended to support joint development activities in recipient countries and to strengthen Brazil's role as an actor in the cooperation with developing countries. The Brazilian side welcomed the German actions towards the trilateral cooperation and reaffirmed its intention to pursue joint action in this modality of cooperation on equitable basis chiefly through technical and professional expertise inputs. Support will be provided to Brazilian institutions in engaging in development cooperation with countries in Africa, Latin America, the Caribbean, and Asia, as well as in defining the requisite legal and administrative framework.

In 2007, a first joint mission by ABC, GTZ and INMETRO (*Instituto Nacional de Metrologia*) in preparation of trilateral cooperation in the area of introducing and optimizing metrology in Mozambique took place, as well as a joint mission between SENAI and GTZ in Paraguay. Further proposals for projects were submitted to ABC. SEBRAE has expressed their willingness to actively participate in this process.

Both sides agreed that the following are formal prerequisites for the future implementation of trilateral cooperation:

- the conclusion of an exchange of notes for the program,
- an implementation contract for the program between ABC and GTZ, and
- the three parties' informal commitment to the joint implementation of each individual measure.

These prerequisites should be in place for the implementation of the future TC project. The measures of the Study and Expert fund should be exempted.

### TC project Cooperation with the Brazilian State Environment Authorities (PROEMA)

(project no. 2001.2248.1)

Within the framework of the TC project: Cooperation with the Brazilian State Environment Authorities (PROEMA) support is also being provided to the state environment authority of São Paulo, CETESB, in setting up a Latin American network for prevention and control of soil and groundwater contamination. The purpose of this initiative, which also has the support of the Brazilian Environment Ministry, is to enable Latin America as a region to benefit from the knowledge on contaminated site management and brownfields redevelopment which CETESB has accumulated with the assistance of Germany. The network is also intended to serve as a long-term mechanism for exchanging knowledge on a regional basis and as a platform for further international cooperation.

### Combined FC/TC Project: Support for the International AIDS control Cooperation Program (TC) (FC component in preparation)

(project no. 2006.2021.1)

The project's overall goal is to build the capacity of the Brazil-based International Center for Technical Cooperation (Centro Internacional para Cooperação Técnica sobre HIV/AIDS, CICT) with a view to increasingly engage in successful action for AIDS control in partner countries within the framework of South-South cooperation. The project duration of the TC component is January 2007 to December 2009. The German contribution is about €4.45 million. DFID is cofinancing the program with another €1.45 million. The German side expressed its concern about the necessity for more professional staff as counterparts in the TC project. The representative of the Ministry of Health explained that whilst not an implementing agency, the Ministry of Health pursues utmost efficiency and is on a restructuring move to substantially increase its manpower involved in this program activities.

This TC activity will be complemented by an FC project which is currently being prepared and for which €5 million was committed in 2005. The German side expressed its concern for the Brazilian Ministry of Health to take a decision on the project implementation and financing structure. The German side informed that an agreement on the implementation structure is key to project approval by the German side. In view of the special characteristics of the FC component which involves financing of investment activities in third countries, both sides stressed the importance of a flexible implementation structure.

### **3.4. Integrated regional development in disadvantaged regions**

#### 3.4.1. Dialogue on the priority area

Both sides expressed their appreciation of the successful cooperation in the priority area concerned with integrated regional development in disadvantaged regions. The FC activities have helped improve people's health status by means of enhanced urban water supply and sanitation as well as basic sanitation in rural areas. In the field of basic sanitation, new operator models have successfully been introduced in rural areas. The TC activities have contributed to the sustainable development of regional income and employment and to the implementation of the national desertification control plan within the framework of the UN Convention to Combat Desertification. For instance, development cooperation has helped enhance the technological capacity of small and medium-sized enterprises by means of Brazilian-German and public-private cooperative endeavors, thus improving these enterprises' competitiveness as well as the absorption of labor. In the area of desertification control, resource-saving production methods and new marketing channels have been established.

After many years of cooperation in this priority area and based on the proposals for the adjustment of the cooperation program, this priority area is to be phased out by the end of 2010, with a final phase of the TC program (2008-10), financed by the funds which are still available in the program (aprox €8 Million).

The goal of cooperation in the TC program in the next three years will be to consolidate, and disseminate on a sustained basis, the instruments and methods which the two sides have developed for structural support to social integration in the area of income and employment promotion as well as in the area of desertification control. To that end, intensive use is to be made of the resources, strategies and active involvement of the private sector. In the area of FC, the projects for improved drinking water supply and sanitation in northeastern Brazil are to be concluded successfully in the next few years.

#### 3.4.2. Financial Cooperation and Technical Cooperation in the strict sense

A list of ongoing projects is attached as Annex 5.

The two sides discussed the following projects and programs:

##### Reprogramming:

##### Sanitation Program Natal (FC)

(project no. 1993.6601.4) – €11,070,083.91 (loan)

### Sanitation Program Natal II (FC)

(no project no.) – €3,000,000 (grant)

As it is not to be expected that the prerequisites for the program's start can be put in place any time soon, the two sides agreed to reprogram the funds and to dedicate them to the priority area of renewable energy and energy efficiency. This is a field with great potential for projects that are characterized by both economic sustainability and high development relevance. Especially regarding technologies that have not been tested extensively yet, there is still a great need for long-term financing on favorable terms. Support is to be provided to energy efficiency and portfolio diversification in the renewable energy sector, both through credit lines and through support for model investments geared toward the development of knowledge combined with the establishment of ecological and social standards. The reprogrammed funds can also be used for development loans. The German side requested the Brazilian side to submit project proposals.

### Program for Integrated Regional Development (TC)

(project no. 2004.2084.4)

At the 2005 government negotiations, €2,000,000 were committed in additional funds for the Program for Integrated Regional Development in Northeastern Brazil. However, that program will still have considerable residual funds (about € 8 million) when the current phase ends in December 2007. The two sides therefore agreed to use the residual funds for the program's three-year final phase. The focus will be on consolidating component 1 (desertification control), consolidating and disseminating the "Vínculos" approach within the framework of component 2 (income and employment promotion), and establishing a fund for public-private partnership projects (component 3). The two sides reprogrammed the additional funds committed in 2005 for the benefit of the Study and Expert Fund (project no. 1995.3585.7).

#### 3.4.3. Technical Cooperation in the broad sense (for information)

Four Integrated Experts deployed by **CIM** are active in the field of regional development.

**DED** is providing advice in this priority area in the following fields: capacity building for civil-society and governmental agencies with a view to ensuring competent civil-society participation; fostering human rights (especially women's and indigenous rights) and the democratization of urban development; territorial development (orderly rural development, especially with a view to the promotion of local business and sustainable production); site-appropriate and organic farming, marketing of small farmers' products and certification for the fair trade market with a view to exporting the goods (cooperation with the Fair Trade Labeling

Organization); support regarding implementation of the national desertification control action plan; biodiesel. In the three latter areas, DED works together with GTZ.

DED finances 12 development workers for this program, as well as 10 local experts who are partly financed by DED.

#### 3.4.4. Future activities

The two sides agreed that, in view of their long-standing, successful cooperation in the priority area of "Integrated regional development in disadvantaged regions" and based on the proposals for the adjustment of the cooperation program, cooperation in this priority area would be phased out with the final phase of the TC program (2008-10). Cooperation with DED in this area will end in 2009. However, churches, political foundations and private agencies may continue to be active in this field, also with financing by German development funds.

### **3.5. Other projects/programs**

#### 3.5.1. Technical Cooperation

##### Study and Expert Fund (TC)

(project no. 1995.3585.7) – German contribution committed: €6,628,324.55 (plus new commitment and reprogrammed funds: €9,128,324.55; new commitment: €500,000 plus €2,000,000 in reprogrammed funds (see 3.4.2.))

Since 1995, a total of 29 activities concerned with the preparation of TC projects or the implementation of individual measures have been supported from the Study and Expert Fund (SEF). One individual measure is still under way and will be completed by 31 July 2008. It is concerned with defining the design and identifying executing agencies for the program on triangular cooperation with Brazilian institutions in third countries. With the new commitment and by reprogramming funds, €4,050,000 will be available for further activities. The two sides agreed that SEF resources amounting to €500,000 (new commitment) might be used for the strategic development and preparation of a potential new project concerned with "Business-Oriented Scientific and Technological Cooperation."

By 2008, the long-standing, successful TC cooperation in the area of urban-industrial environmental protection will be completed and/or integrated into regional cooperation programs. The German side thanked the Brazilian side for the good and successful cooperation in the area of urban-industrial environmental protection which it had enjoyed with

numerous Brazilian partners over more than ten years. It drew attention to the plan of disseminating this experience beyond Brazil's borders through a regional network (Latin American network for prevention and control of soil and groundwater contamination, see 3.3.2.).

### 3.5.2. Technical Cooperation in the broad sense (for information)

Two Integrated Experts deployed by **CIM** are active in the field of technology transfer/research cooperation. One expert is providing advice on the establishment of a cluster in the area of moldmaking/polymer processing; the other expert is involved in fostering economic and technical cooperation and the transfer of technology in the area of timber frame and furniture construction.

Building on the earlier project concerned with environmental technology cooperation in Brazil, **InWEnt** plans to start a program in 2008, based on a strategic partnership with ECLAC, for innovation and technology development in selected Latin American countries (Brazil, Chile, Argentina, Colombia). The purpose of that program is to support regional dialogue processes, foster national innovation systems, and strengthen mechanisms for transferring technology from researchers to practitioners. It is planned to establish specific cooperation partnerships between the private sector and scientific-technical institutions in Germany and in target countries in order to improve scientific and technological as well as economic cooperation.

In Brazil, InWEnt is involved in an endeavor for South-South cooperation on industrial biotechnology and in international leadership training on sustainability management.

## ***3.6. Preparation of Financial Cooperation projects and programs***

Both sides agree that in order to prepare and support the Financial Cooperation projects and programs agreed during the present government negotiations, they shall conduct studies, produce expert opinions and deploy experts as the need arises. Such activities shall be coordinated between KfW and the relevant line authority. The funds for such efforts shall be made available by the Government of the Federal Republic of Germany in addition to the bilateral Financial Cooperation commitments mentioned in para 3.1. Both sides shall report on the implementation and outcome of such activities at the next government consultations and/or negotiations.

### 3.7. Overview of commitments including reprogrammed funds

<b>Activities</b>	<b>FC/TC</b>	<b>Project no.</b>	<b>Type</b>	<b>Reprogrammed funds (€ million)</b>	<b>New commitment (€ million)</b>
<b>Protection and sustainable management of tropical rain forests</b>					
Fund for Protected Areas – FAP/ARPA	FC	2005.6601.8	continuation		10.0
Amazon Region Protected Areas Project – ARPA	FC	2001.6657.9	continuation		10.0 (2006)
Protection of the Atlantic Coastal Forest in Minas Gerais	FC	1998.6721.9	continuation		8.0
CP <sup>1</sup> : Line 1 - Promotion of Protected Areas and Sustainable Use	TC	2005.2166.6	Additional funds		4.0
CP: Line 2 - Demarcation and Protection of Indigenous Lands	TC	2005.2167.4	Additional funds		1.0
CP: Line 3 - Regional Planning and Development in the Amazon Region	TC	2005.2168.2	Additional funds	0.38	
<b>Energy</b>					
CP: Renewable Energies Credit Program (BNDES)	FC	2006.6623.0	Additional funds		38.0 (reduced interest)
Renewable Energies Credit Program (BNDES)	FC	2006.6623.0	new project/ program		14.0 (red. interest, 2006)
CP: Renewable Energy and Energy Efficiency	TC	-	new project/ program		4.0
CP: Renewable Energy and Energy Efficiency	FC	-	new project/ program	14.07	
<b>Trilateral cooperation, cooperation corridors, contribution to poverty reduction</b>					
Trilateral Cooperation Program	TC	-	new project/ program		2.5
Study and Expert Fund	TC	1995.3585.7	Additional funds	2.0	0.5
<b>Sum total</b>				<b>16.45</b>	<b>92.0</b>
<b>Sum total including reprogrammed funds</b>					<b>108.45</b>

## 4. Other instruments and contributions available as part of German development cooperation

### 4.1. Germany's multilateral contributions

Germany's share in (gross) ODA disbursements from multilateral institutions to Brazil in 2005 totaled €5.1 million (this includes €3.0 million through the EU, €0.8 million through IDB).

### 4.2. Regional projects/programs

Brazil is part of the following further **regional or multi-region projects and programs**:

- As part of Germany's bilateral contribution to the **Montreal Protocol Multilateral Fund**, support is being provided to Brazil in meeting its commitments under the Montreal Protocol on Substances that Deplete the Ozone Layer:
  - National plan for phasing out CFCs (total volume: US\$3,850,338)
  - Training for customs officers under the national plan for phasing out CFCs (total volume: US\$141,200)

- **"Sustainable, fair and equitable globalization" program**

(program no. 2003.2179.4/GTZ):

This program supports member governments of the UN Economic Commission for Latin America and the Caribbean (ECLAC) in improving public policy management and reinforcing the aspect of equal opportunities and sustainability in their development policies and international integration policies. The program's overall goal is to enable ECLAC member countries to use new approaches and instruments for formulating, implementing and evaluating sectorally integrated policies that have been harmonized between different government levels with a view to fostering a more equitable and sustainable type of globalization. Total duration: January 2004 to June 2008; German contribution: €6,000,000.

### 4.3. Other instruments and players

The German side informed the Brazilian delegation about the BMZ's new development volunteers service, "weltwärts" ("world-wards"). Both sides emphasized that they would implement this support program in a spirit of partnership and cooperation and that they would exchange views on the experience gained after the

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<sup>1</sup> CP = Combined FC/TC Project

end of the 3-year introductory phase. The Brazilian side welcomed the initiative and signalled its willingness to support it in providing information as to the visa requirement procedures for these activities as well as dissemination of pertinent information amongst Brazilian institutions.

In 2005 and 2006, **InWEnt** carried out brief training sessions in Brazil for about 1,900 specialists and leaders. The main focus was on environmental technology, renewable energy, climate protection, promotion of SMEs, sustainability management, and protection and management of tropical forests. InWEnt also supports regional dialogues in Mercosur on social cohesion, sustainable economic activity and corporate social responsibility. These activities are supported by the InWEnt Brazil office. Eight Brazilians participated in the MBA program on sustainability launched in 2006. Then there is the international "Managing Global Governance" program (2005-9), which targets young leaders from Brazil and other countries. It is geared toward improving governments' capacity for dialogue and cooperation with a view to justice in globalization. Two Brazilians participated in the first course. Targeted engagement with alumni on sustainable economic activity is helping to reinforce cooperation and the development of networks of alumni in Latin America.

In addition to the 11 Integrated Experts currently working in Brazil, **CIM** is also providing support to 27 returning experts who have gone back, or are going back, to Brazil after receiving higher or vocational education in Germany or working there.

In the 2005-6 period, public funding amounting to €1,984,603 was made available for 12 newly approved **PPP activities** in a variety of sectors. There are also some regional or multi-region PPP activities financed from the PPP Facility that have a strong focus on Brazil.

The **Foundation for Economic Development and Vocational Training (SEQUA)** currently supports two projects under its program for partnerships between chambers and business associations:

- vocational training centers run by Bayerische Arbeitgeberverbände, Hof, Germany, and the association of consultant engineers and architects in Pernambuco in cooperation with the National Association of Architectural and Consulting Engineering Companies (SINAENCO) – €640,000
- vocational training centers run by Bayerische Arbeitgeberverbände, Hof, Germany, and some industry associations that are members of the Federação das Indústrias do Estado de Pernambuco (FIEPE) – €990,000

There is a partnership project between the Conselho Especializado de Crédito (CECO) of the Organização das Cooperativas Brasileiras (OCB) and the DZ Bank, Deutsche Zentral-

Genossenschaftsbank AG, as well as the German Cooperative and Raiffeisen Confederation (**DGRV**) in support of savings and credit cooperatives in northeastern Brazil (project no. 2003.1013.6) – duration: January 2004 to December 2008; German contribution: €1.507 million.

In 2005-6, there were a total of 17 Senior Expert Service (**SES**) assignments.

In 2006, the German Academic Exchange Service (**DAAD**) provided BMZ-financed support to 27 scholarship holders within the framework of the "Development-related post-graduate courses" program as well as to 32 participants in the country-specific scholarship program, nine projects within the framework of the alumni program and eight projects involving higher education partnerships in specific disciplines. In 2006, total DAAD expenditure (relating to BMZ-sponsored activities) for support involving Brazil was about €982,387.

Alexander von Humboldt Foundation (**AvH**) provided one Humboldt research scholarship and six Georg Forster scholarships in 2006. One Brazilian holder of a Humboldt research scholarship received funding for continuing his scholarship as part of the alumni program. One research scholarship holder from Brazil received an in-kind donation (scientific equipment). In October 2006, the Brazil Humboldt Club held a "Humboldt Kolleg" (symposium) in Porto Alegre on "Globalization and Justice," supported by AvH resources. In March 2007, a colloquium for alumni (research scholarship holders and award winners) was held in Porto Alegre.

Support totaling €208,817 is being provided to three projects currently being carried out in Brazil by **private German agencies**. The support focuses on basic and vocational education, support for children and young people (street children), and rural development. Support totaling €3,280,159 is also being provided to five projects carried out by agencies concerned with "social structure assistance" (specifically, **DGB-Bildungswerk** and Caritas Germany). The former is operating a project concerned with training specialists and leaders in corporate social responsibility and in using information and communication media.

In 2005, the German **Federal States** supported schools, hospitals, wood technology and environmental technology centers and, in particular, higher education students, with resources totaling €10.974 million.

In the 2003-6 period, the **churches** used Federal funding for 235 projects in Brazil. The overall volume was about €56.351 million, with support mainly going toward education, government and civil society, rural development, and poverty reduction.

The funding received by **political foundations** (FES – Friedrich Ebert Foundation, KAS – Konrad Adenauer Foundation, FNS – Friedrich Naumann Foundation, HBS – Heinrich Böll Foundation, Rosa Luxemburg Foundation) in 2005 and 2006 totaled €6,696,357.

The portfolio of **DEG** in Brazil (net commitments as at 30 April 2007) is €87 million.

- **KfW** has granted a **promotional loan** of US\$150 million to the BNDES development bank (bullet loan).

## **5. Declarations and final clauses**

### ***5.1. Provisos for project/program implementation***

Both delegations agree that all the contributions envisaged by the German side and recorded in the present document (under para 3.7.) can only be made when

- the Government of the Federal Republic of Germany has taken a positive decision once project/program appraisals have been carried out by KfW, GTZ and/or any other organization commissioned with implementing the project or program,
- overall financing for the project/program has been secured,
- the agreements under international law to be concluded (intergovernmental agreements and project/program agreements), the financing and loan agreements and the implementation agreements with KfW/GTZ and, if applicable, any other implementing organizations have entered into force,
- The projects have been approved on the Brazilian side by the ABC (for technical cooperation) or by COFLEX (for financial cooperation).

### ***5.2. Terms for Financial Cooperation***

New Financial Cooperation commitments shall be made available at the following terms:

- up to €52 million as a reduced-interest loan with a maturity of 12 years and a grace period of 3 years for the projects/programs mentioned in para 3.2.2.2.,
- up to €18 million as a financial contributions for the FC projects mentioned in para 3.2.1.2., provided that it can be ascertained that the projects in question are concerned with environmental protection / social infrastructure / self-help oriented poverty reduction activities / measures to improve the social status of women / a credit guarantee fund for small and medium-sized enterprises and therefore meet the special prerequisites for support in the form of a financial contribution. If the decision is otherwise positive but it cannot be ascertained that the projects meet the aforementioned criteria, then a loan shall be provided for the project under the terms set out above.

In addition to the well known financing instruments, KfW can offer so called CF promotional loans to Brazilian public enterprises and banks. Several public banks and water supply enterprises have shown interest in this kind of financing. However, due to the lack of a double tax agreement, it is difficult to offer attractive financing conditions for development projects.

### ***5.3. Sunset and project/program replacement clause***

The German side draws particular attention to the fact that the commitments made under Financial Cooperation and Technical Cooperation (cf. para 3.7.) will lapse if within eight years of the year in which the commitment was made no implementation agreement, i.e. in the case of Financial Cooperation a loan/financing agreement and in the case of Technical Cooperation, generally, an exchange of notes, has been concluded. Thus, commitments made during the 2007 negotiations are subject to a 31 December 2015 deadline.

Should one or more of the projects/programs mentioned not be implemented or only be partially implemented, it/they may be replaced in mutual agreement between the two governments by another project/program or projects/programs. The following project (cf. para 3.2.2.2) cannot be replaced by others: Renewable Energies Credit Program (BNDES).

### ***5.4. Anti-corruption statement***

In view of the firm intention of both governments to combat corruption in the public and the private sectors, the two sides agreed on the assessment regarding the negative effects of corruption as laid out at 1.5, page 9, of the Summary Record dated 20 November 2001.

Both governments intend to cooperate closely in order to ensure transparency, accountability and probity in the use of public resources and eliminate any opportunities which may exist for corrupt practices in their development cooperation.

## **6. Next government negotiations**

The next negotiations on development cooperation between the Government of the Federative Republic of Brazil and the Government of the Federal Republic of Germany are scheduled to take place in Germany in 2009.

Done at Brasília on 23 November 2007

Ambassador Luiz Henrique Pereira da Fonseca

Dorothea Groth

For the Government  
of the Federative Republic of Brazil

For the Government  
of the Federal Republic of Germany

Members of the Brazilian government delegation

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