

Public Disclosure Authorized

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GEF TRUST FUND GRANT NUMBER TF056599

# Global Environment Facility Trust Fund Grant Agreement

(Nicaragua-Honduras Corazón Transboundary Biosphere Reserve Project)

between

*COMISIÓN CENTROAMERICANA DE AMBIENTE Y DESARROLLO*

and

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

Dated July 18, 2006

Public Disclosure Authorized

## **GEF TRUST FUND GRANT NUMBER TF056599**

### **GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT**

AGREEMENT, dated July 18, 2006, between *COMISIÓN CENTRO AMERICANA DE AMBIENTE Y DESARROLLO* (the Recipient or CCAD) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution 94-2);

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2;

(D) the Republic of Nicaragua (Nicaragua) has received financing from the International Development Association (IDA) by an agreement dated February 24, 2006 (the ATP-II Credit Agreement) for Credit No. 4127-NI (Second Agricultural Technology Project) in an aggregate principal amount of eight million three hundred thousand Special Drawing Rights (SDR8,300,000) (the ATP-II Credit) which finances, among others, sustainable development activities in the area of the Project;

(E) the Republic of Honduras (Honduras) has received financing from the International Development Association (IDA) by an agreement dated September 9, 2004 (the PBPR Credit Agreement) for Credit No. 3940-HO (Forests and Rural Productivity Project) in an aggregate principal amount of thirteen million four hundred thousand Special Drawing Rights (SDR13,400,000) (the PBPR Credit) which finances, among others, sustainable development activities in the area of the Project;

(F) the Project will be carried out in part by Nicaragua with the Recipient's assistance and, as part of such assistance, the Recipient will make part of the proceeds of the GEF Trust Fund Grant available to Nicaragua, as provided in this Agreement;

(G) the Project will be carried out in part by Honduras with the Recipient's assistance and, as part of such assistance, the Recipient will make part of the proceeds of the GEF Trust Fund Grant available to Honduras, as provided in this Agreement; and

(H) Honduras intends to receive from *Deutsche Gesellschaft für Technische Zusammenarbeit/Kreditanstalt für Wiederaufbau* (GTZ/KfW) a grant in an amount of about six million Euro (Euro 6,000,000) (the GTZ/KfW Grant) to assist in financing the implementation of management plans in the Honduras' Rio Plátano Biosphere Reserve on the terms and conditions to be set forth in an agreement to be entered into between Honduras and GTZ/KfW; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the grant referred to in Section 2.01 of this Agreement (the GEF Trust Fund Grant) to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

## **ARTICLE I**

### **General Conditions; Definitions**

Section 1.01 (a) The following provisions of the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Sections 4.01 and 4.06;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i), (l), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);

- (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
  - (ix) Sections 10.01, 10.03 and 10.04;
  - (x) Article XI; and
  - (xi) Sections 12.01 (c), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), 6.02 (f) and 5.01 (a) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
  - (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
  - (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
  - (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
  - (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
  - (vi) a new subparagraph is added after subparagraph (o) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”;
  - (vii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 are replaced with the words “corrupt, fraudulent, collusive or coercive”; and
  - (viii) Section 5.08 shall be modified to read as follows:

“Treatment of Taxes. Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient or the Member Countries on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such

taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "AFE-COHDEFOR" means *Administración Forestal del Estado*, the Honduras' Forestry Agency established pursuant to Honduras' Decree Law No. 103 dated January 10, 1974 (as such Decree Law has been amended to the date of this Agreement), or any successor thereto acceptable to the Bank;

(b) "Approved POA" means each annual operating plan and budget referred to in Section 3.03 of this Agreement and paragraph 1 (e) of Schedule 5 to this Agreement;

(c) "Asset Management Contract" means the contract referred to in paragraph 1 (l) of Schedule 5 to this Agreement;

(d) "Asset Manager" means the manager referred to in paragraph 1 (l) of Schedule 5 to this Agreement;

(e) "Beneficiary" means:

(i) in respect of a Community Subproject, an association, non-governmental organization, corporation, agency or other organization representing a community which resides in or around a CTBR Protected Area;

(ii) in respect of a Co-Management Promotion Subproject, a municipality, association, non-governmental organization, corporation or other agency, or an association or other organization representing a community of the CTBR Protected Areas;

(iii) in respect of a Research Grant, an association, non-governmental organization, corporation, agency, academic institution, other organization or individual; and

- (iv) in respect of a Scholarship Grant, an individual residing in the CTBR Protected Areas;

all of which meet the criteria set forth in the Operational Manual to participate in a Community Subproject, or a Co-Management Promotion Subproject, or to receive a Research Grant or a Scholarship Grant, respectively;

(f) “Binational Technical Committee” means the committee referred to in paragraph 1 (a) (ii) (B) of Schedule 5 to this Agreement;

(g) “CCAD Special Account” means the account referred to in Part B.1(a) of Schedule 1 to this Agreement;

(h) “CCAD Subcomponents” means collectively Parts A.2, A.3, E.2 and F.1 of the Project;

(i) “Co-Management Promotion Subproject” means a set of activities for implementation of a mechanism or partnership to co-manage a CTBR Protected Area, which subproject is selected, approved and implemented in accordance with the requirements of the Operational Manual and the Subprojects and Grants Guidelines;

(j) “Co-Management Promotion Subproject Grant” means a grant made or proposed to be made by a Member Country out of the proceeds of the GEF Trust Fund Grant to a Beneficiary for the financing of goods, works and/or services, as the case may be, of a Co-Management Promotion Subproject pursuant to the terms of the Operational Manual and the Subprojects and Grants Guidelines;

(k) “Co-Management Promotion Subproject Grant Agreement” means any of the agreements to be entered into between the Member Country and a Beneficiary providing for a Co-Management Promotion Subproject Grant;

(l) “Community Subproject” means a Subproject consisting of activities of sustainable use of natural resources in a CTBR Protected Area included in Part D.2 of the Project, which subproject is selected, approved and implemented in accordance with the requirements of the Operational Manual and the Subprojects and Grants Guidelines;

(m) “Community Subproject Grant” means a grant made or proposed to be made by the Member Country out of the proceeds of the GEF Trust Fund Grant to a Beneficiary for the financing of goods, works, services and/or operating costs, as the case may be, of a Community Subproject pursuant to the terms of the Operational Manual and the Subprojects and Grants Guidelines;

(n) “Community Subproject Grant Agreement” means any of the agreements to be entered into between the Member Country and a Beneficiary providing for a Community Subproject Grant;

(o) “CTBR” means the *Corazón* Transboundary Biosphere Reserve to be proposed by Nicaragua and Honduras for recognition by UNESCO covering the following protected areas: the Bosawas Biosphere Reserve in Nicaragua, and the Tawahka Asangni Reserve, the Patuca National Park, and the Río Plátano Biosphere Reserve in Honduras;

(p) “CTBR Protected Area” means any of the protected areas of the CTBR;

(q) “Eligible Categories” means Categories (1), (2) and (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(r) “Eligible Expenditures” means the expenditures for goods, works, consultants’ and other services, Research Grants, Scholarship Grants and Endowment Fund contributions referred to in Section 2.02 of this Agreement;

(s) “Eligible Population” means the eligible population set forth or referred to in the Process Framework;

(t) “Endowment Fund” means collectively the Nicaragua Endowment Fund and the Honduras Endowment Fund;

(u) “Endowment Fund Protected Area” means any protected area of Nicaragua and/or Honduras as the case may be, eligible for financing by each Endowment Fund in accordance with the provisions of the respective Endowment Fund Manual;

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

(w) “Honduras Endowment Fund” means the endowment fund to be established by Honduras with financing from the proceeds of the GEF Trust Fund Grant and other public and private donors, to finance the costs associated with the establishment, operation and maintenance of its system of protected areas;

(x) “Honduras Endowment Fund Manual” means the manual for the operation of the Endowment Fund, referred to in paragraph 1 (k) (i) of Schedule 5 to this Agreement, as the same may be amended from time to time by agreement between the Bank and the Recipient;

(y) “Honduras Inter-Institutional Agreement” means the agreement referred to in paragraph 1 (b) of Schedule 5 to this Agreement;

(z) “Honduras PCU” means the Project coordination unit for Honduras referred to in paragraph 1 (a) (iii) of Schedule 5 to this Agreement;

(aa) “Honduras Special Account” means the account referred to in Part B.1 (c) of Schedule 1 to this Agreement;

(bb) “Honduras Subcomponents” means collectively Parts A.1 (a) and (c), B.3, B.4, C, D, E.1, E.3 and F.3 of the Project;

(cc) “INA” means *Instituto Nacional Agrario*, Honduras’ National Agrarian Institute;

(dd) “Indigenous Peoples” means the indigenous peoples and Afro-descendants eligible in each of the Member Countries to benefit from the constitutional and other legal provisions as indigenous peoples and other ethnic groups;

(ee) “Indigenous Peoples Development Plan” means the plan set forth in the Operational Manual for the development of Indigenous Peoples affected by the Project;

(ff) “IP” means *Instituto de la Propiedad*, Honduras’ Property Institute;

(gg) “Integrated Pest Management Plan” means the plan set forth in the Operational Manual for pest management purposes;

(hh) “MAG-FOR” means *Ministerio Agropecuario y Forestal*, Nicaragua’s Ministry of Agriculture, Livestock and Forestry;

(ii) “Management Plan” means a document outlining the management objectives for a CTBR Protected Area, a description of the strategies required to achieve such objectives (consistent with those in Schedule 4 to this Agreement) the activities to be financed by the Bank and as needed, containing a Process Framework Plan following the requirements of the Process Framework;

(jj) “MARENA” means *Ministerio del Ambiente y Recursos Naturales*, Nicaragua’s Ministry of the Environment and Natural Resources, including its Technical Secretariat for the BOSAWAS Biosphere Reserve;

(kk) “Member Country” means the Republic of Nicaragua and/or the Republic of Honduras;

(ll) “Model Form” means respectively the model Co-Management Promotion Subproject Grant Agreement, Community Subproject Grant Agreement, Research Grant Agreement, and Scholarship Grant Agreement, all as set forth in the Subprojects and Grants Guidelines;

(mm) “Nicaragua Endowment Fund” means the endowment fund to be consolidated by Nicaragua with financing from the proceeds of the GEF Trust Fund Grant

and other public and private donors, to finance the costs associated with establishment, operation and maintenance of its system of protected areas;

(nn) “Nicaragua’s Endowment Fund Manual” means the manual for the operation of the Nicaragua Endowment Fund, referred to in paragraph 1 (k) (i) of Schedule 5 to this Agreement, as the same may be amended from time to time by agreement between the Bank and Nicaragua;

(oo) “Nicaragua Inter-Institutional Agreement” means collectively the two agreements referred to in paragraph 1 (c) of Schedule 5 to this Agreement;

(pp) “Nicaragua PCU” means the project coordination unit for Nicaragua referred to in paragraph 1 (a) (iii) of Schedule 5 to this Agreement;

(qq) “Nicaragua Special Account” means the account referred to in paragraph B.1 (b) of Schedule 5 to this Agreement;

(rr) “Nicaragua Subcomponents” means collectively Parts A.1 (b) and (c), B.1 and B.2, C, D, E.1 and E.3 and F.2 of the Project;

(ss) “Operational Manual” means the manual approved by the Bank on April 20, 2006, as the same may be amended from time to time by agreement between the Bank and the Recipient;

(tt) “Performance Indicators” means the performance indicators set forth in the Operational Manual;

(uu) “Process Framework” means the framework for preparing and implementing plans as needed to mitigate the possible impact of restrictions on Eligible Population in a CTBR Protected Area as a result of activities carried out under the Project and financed by the GEF Trust Fund Grant;

(vv) “Process Framework Plan” means any plan prepared and implemented in accordance with the Process Framework;

(ww) “Procurement Plan” means the Recipient’s procurement plan, dated April 12, 2006 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(xx) “Property Agency” means *Intendencia de la Propiedad*, Nicaragua’s agency in charge of land title clearance (*saneamiento*) or such other agency as the Bank may agree for purposes of implementing Part A. 1 (b) and (c) of the Project;

(yy) “Report-based Disbursements” means the Recipient’s option for withdrawal of funds from the GEF Trust Fund Grant Account referred to in Part A.5 of Schedule 1 to this Agreement;

(zz) “Research Grant” means any grant provided under Part E.2 (b) (ii) of the Project to a Beneficiary to undertake scientific biodiversity research benefiting the CTBR Protected Areas, following the requirements of the Operational Manual;

(AA) “Research Grant Agreement” means any of the agreements for Research Grants referred to in paragraph 1 (j) of Schedule 5 to this Agreement;

(BB) “SAG” means *Secretaría de Agricultura y Ganadería*, Honduras’ Secretariat of Agriculture and Livestock;

(CC) “Scholarship Grant” means any grant provided to a Beneficiary under Part D.1 (c) of the Project to finance the tuition, travel, per diem and other costs of training set forth in the Operational Manual;

(DD) “Scholarship Grant Agreement” means any of the agreements for Scholarship Grants referred to in paragraph 1 (j) of Schedule 5 to this Agreement;

(EE) “SEFIN” means *Secretaría de Finanzas*, Honduras’ Secretariat of Finance;

(FF) “SEPCA” means *Secretaría de la Presidencia para Asuntos de la Costa Atlántica*, Nicaragua’s Secretariat for the Atlantic Coast Affairs;

(GG) “SERNA” means *Secretaría de Recursos Naturales y Ambiente*, Honduras’ Secretariat of Natural Resources and the Environment;

(HH) “Steering Committee” means the committee referred to in paragraph 1 (a) (ii) (A) of Schedule 5 to this Agreement;

(II) “Subprojects” means collectively Community Subprojects and Co-Management Promotion Subprojects;

(JJ) “Subprojects and Grants Guidelines” means the guidelines referred to in Section 3.04 (b) of this Agreement;

(KK) “Tripartite Agreement” means the agreement referred to in Section 3.01 (b) of this Agreement; and

(LL) “UNESCO” means the United Nations Educational, Scientific and Cultural Organization.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to Honduras for the Honduras Subcomponents and to Nicaragua for the Nicaragua Subcomponents.

## **ARTICLE II**

### **The GEF Trust Fund Grant**

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equal to twelve million Dollars (\$12,000,000).

Section 2.02. The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services, Research Grants, Scholarship Grants and Endowment Fund contributions required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be August 1, 2012 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Secretary of SEFIN and any person or persons whom he or she shall designate in writing is designated as representative of the Recipient for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of Honduras Subcomponents.

(b) The Minister of MARENA and any person or persons whom he or she shall designate in writing is designated as representative of the Recipient for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of the Nicaragua Subcomponents.

## **ARTICLE III**

### **Execution of the Project**

Section 3.01. (a) The Recipient declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall:

- (i) carry out the CCAD Subcomponents with due diligence and efficiency and in conformity with appropriate administrative,

financial, economic, social and environmental standards and practices, as well as in conformity with the Operational Manual, the Subprojects and Grants Guidelines and the Approved POAs, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the CCAD Subcomponents; and

- (ii) carry out the overall coordination and monitoring of all Parts of the Project.

(b) The Recipient shall enter into a tripartite agreement, under terms and conditions satisfactory to the Bank, including those specified herein and in Schedule 5 to this Agreement, whereby in particular:

- (i) (A) Nicaragua shall carry out, through MARENA and with the participation of SEPCA and the Property Agency, the Nicaragua Subcomponents; and
- (B) Honduras shall carry out, through SERNA and AFE-COHDEFOR and with the participation of SAG, IP and INA, the Honduras Subcomponents;

all with due diligence and efficiency and in conformity with appropriate administrative, financial, economic, social and environmental standards and practices, as well as in conformity with the provisions of this Agreement, the Operational Manual, the Subprojects and Grants Guidelines, the Nicaragua Endowment Fund Manual and the Honduras Endowment Fund Manual, as the case may be, and the Approved POAs; and

- (ii) Nicaragua and Honduras shall provide, promptly as needed, the funds, facilities, services and other resources required for the Nicaragua Subcomponents and the Honduras Subcomponents, respectively.

(c) For the purposes of carrying out the Project, the Recipient shall maintain during Project implementation a unit to manage the GEF Trust Fund Grant, with responsibilities, structure and functions satisfactory to the Bank.

(d) The Recipient shall exercise its rights and comply with its obligations under the Tripartite Agreement, in such a manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant and, except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce the Tripartite Agreement or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds

of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. The Recipient shall, by November 30 of each year during Project implementation, commencing November 30, 2006, prepare jointly with the Member Countries, and furnish to the Bank, the proposed annual operating plan and budget, agreed with the Bank, detailing the Project activities for all Parts of the Project proposed to be carried out during the next succeeding year and the respective sources of funding therefor, all approved following the procedures of the Operational Manual.

Section 3.04. (a) The Recipient shall carry out the Project in accordance with a manual, agreed with the Bank, said manual to include, *inter alia*:

- (i) the organizational structure of the Project, the procurement and financial requirements, and the procedures for the carrying out, monitoring and evaluation of the Project;
- (ii) basic criteria for the selection of Beneficiaries and for the financing of Co-Management Promotion Subproject Grants, Community Subproject Grants, Research Grants and Scholarships Grants;
- (iii) requirements for the selection, approval and implementation of Co-Management Promotion Subprojects, Community Subprojects, Research Grants and Scholarship Grants (including, in respect of Subprojects, the environmental screening, evaluation, approval and monitoring procedures and those set forth in Schedule 4 to this Agreement); and
- (iv) the Process Framework, Indigenous Peoples Development Plan, the framework for environmental screening and impact mitigation, the Integrated Pest Management Plan, the mechanisms for avoiding conversion or degradation of natural habitats, and the guidelines with measures to be taken if a physical cultural resource were to be endangered.

(b) The Recipient shall carry out the Subprojects, the Research Grants and the Scholarship Grants in accordance with the Operational Manual and the Subprojects and Grants Guidelines, such guidelines to include, *inter alia*:

- (i) detailed criteria for the selection of Beneficiaries and for the financing of Co-Management Promotion Subproject Grants, Community Subproject Grants, Research Grants and Scholarships Grants;
- (ii) detailed procurement provisions applicable to the Subprojects;
- (iii) the accounting requirements for Subprojects and procedures for monitoring and evaluation of Subprojects, Research Grants and Scholarships Grants; and
- (iv) the model draft agreement for Co-Management Promotion Subproject Grant Agreements, Community Subproject Grant Agreements, Research Grant Agreements and Scholarship Grant Agreements.

(c) In the case of any conflict between the terms of the GEF Trust Fund Grant Agreement and those of the Operational Manual, the terms of the GEF Trust Fund Grant Agreement shall prevail.

Section 3.05. The Recipient shall during the execution of the Project:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, and in accordance with the Performance Indicators the carrying out of all Parts of the Project, and the achievement of its objective;

(b) furnish to the Bank, not later than February 15 of each year, commencing February 15, 2007 a progress report on the execution of the Project during the calendar year immediately preceding the date of each such report, said report to be of such scope and detail as the Bank may reasonably request and to include the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section;

(c) carry out, jointly with the Bank, not later than March 15 of each year, commencing March 15, 2007, reviews of the progress of the Project and the attainment of the Project objective on the basis of the reports referred to in paragraph (b) of this Section; and

(d) thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of its objective, based on the conclusions and recommendations of the said reports, and the Bank's views on the matter.

Section 3.06. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare jointly with the Member Countries, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Recipient on said plan.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Recipient shall:

- (i) maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project; and
- (ii) cause Nicaragua and Honduras to maintain in respect of the Nicaragua Subcomponents and the Honduras Subcomponents respectively, a financial management system each, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Nicaragua Subcomponents and the Honduras Subcomponents, including, as a separate item, the operations, financial conditions, and expenditures of the Nicaragua Endowment Fund and the Honduras Endowment Fund.

(b) The Recipient shall, and shall cause the Member Countries in respect of the Nicaragua Subcomponents and the Honduras Subcomponents to:

- (i) have the respective financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the

respective financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

- (iii) furnish to the Bank such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Recipient shall:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports or statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in Sections 3.03 and 3.05 of this Agreement, the Recipient shall prepare and cause Nicaragua and Honduras to prepare for their respective Parts of the Project and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

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

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

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

## **ARTICLE V**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified :

- (a)
  - (i) the right of Nicaragua or Honduras to withdraw the proceeds of the ATP-II Credit or the PBPR Credit made to Nicaragua and Honduras, respectively, for the financing of sustainable development activities in support of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
  - (ii) the ATP-II Credit or PBPR Credit shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Recipient, if applicable, or the respective Member Country establishes to the satisfaction of the Bank that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Member Country to perform any of its obligations under such agreement; and (ii) adequate funds for sustainable development activities in support of the Project are available to the respective Member Country from other sources on terms and conditions consistent with the obligations of the Recipient and/or Member Country under or referred to in this Agreement.

(c) Any of the Member Countries shall have failed to perform any of its obligations under the Tripartite Agreement or SERNA, SAG, AFE-CODEHFOR, IP, INA, MAG-FOR, SEPCA, or the Property Agency shall have failed to perform any of their respective obligations under the Honduras Inter-Institutional Agreement or the Nicaragua Inter- Institutional Agreement.

(d) The ATP-II Credit Agreement shall have failed to become effective by March 31, 2007 or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient or Nicaragua establishes to

the satisfaction of the Bank that adequate funds for the implementation of sustainable development activities in support of the Project are available to Nicaragua from other sources on terms and conditions consistent with the obligations of Nicaragua under this Agreement.

## **ARTICLE VI**

### **Effectiveness; Termination**

Section 6.01. The following event is specified as additional conditions to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions, namely that the Tripartite Agreement, the Honduras Inter-Institutional Agreement and the Nicaragua Inter-Institutional Agreement have been executed by the parties thereto.

Section 6.02. The following is specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, by counsel to each of the parties to the respective agreements, namely that the Tripartite Agreement, the Honduras Inter-Institutional Agreement and the Nicaragua Inter-Institutional Agreement have been duly authorized or ratified by the parties thereto, and are legally binding upon such parties in accordance with their respective terms.

Section 6.03. Without prejudice to the provisions of the General Conditions, the date specified for the purposes of Section 12.04 of the General Conditions is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the GEF Trust Fund Grant which expires on December 13, 2007.

Section 6.04. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

## **ARTICLE VII**

### **Representative of the Recipient; Addresses**

Section 7.01. Except as provided in Section 2.04 of this Agreement, the Executive Secretary of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

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

For the Recipient:

Boulevard Orden de Malta No. 470  
Urb. Santa Elena Ant. Cuscatlán  
La Libertad  
El Salvador

Facsimile: 503 2 248-8894

With copy to:

Despacho del Ministro  
Km. 12 ½ Carretera Norte  
Frente a la Corporación de Zona Franca  
Managua, Nicaragua

Facsimile: 505-263-1274, 505-263-1667

With copy to:

Secretaría de Recursos Naturales y Ambiente  
100 metros al Sur del Estadio Nacional  
Tegucigalpa, M.D.C.  
Honduras

Facsimile: 504- 232-6250

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD  
Washington, D.C.

248423 (MCI)  
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

*COMISIÓN CENTROAMERICANA DE AMBIENTE Y  
DESARROLLO*

By /s/ Marco Antonio González P.

Authorized Representative

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

By /s/ Jane Armitage

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the GEF Trust Fund Grant**

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the GEF Trust Fund Grant, the allocation of the amounts of the GEF Trust Fund Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	Amount of the GEF Trust Fund Grant Allocated (Expressed in <u>Dollars</u> )	% of Expenditures <u>to be Financed</u>
(1) Goods, works, non-consultant services, consultants' services and Operating Costs, for:		
(a) CCAD	1,002,000)	
(b) Honduras	2,854,000)	100%
(c) Nicaragua	2,854,000)	
(2) Subprojects, Research Grants, and Scholarship Grants:		
(a) CCAD (Research Grants only)	90,000)	
(b) Honduras	2,100,000)	100% (in the case of Subprojects, of goods, works services and operating costs required therefor)
(c) Nicaragua	2,100,000)	

(3) Endowment Fund contributions for:

(a) Honduras	500,000	)	100%
(b) Nicaragua	500,000		
TOTAL	<u>12,000,000</u>		

2. For the purposes of this Schedule the term “Operating Costs” means reasonable recurrent expenditures to carry out the Project and in connection with meetings of the Committees and forum referred to in Part A.2 of the Project, such as travel and per diem cost for supervision and training activities, preparation of promotion materials, communications services, rental of facilities, maintenance of Project facilities, equipment, vehicles, fuel and utilities, and consumable materials and supplies.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of :

(a) payments made for expenditures prior to the date of this Agreement. except that withdrawals, in an aggregate amount not exceeding \$200,000, may be made on account of payments made for expenditures twelve months before that date but after April 10, 2006;

(b) payments under Category (2) unless the Subprojects and Grants Guidelines have been approved by the Bank, and

(c) payments under Subcategories (3) (a) or (b) for the Honduras Endowment Fund contribution or the Nicaragua Endowment Fund contribution respectively unless:

- (i) the respective Endowment Funds have been established in form and substance satisfactory to the Bank;
- (ii) the respective rules and procedures for operation of the Endowment Funds, including the Honduras Endowment Fund Manual and the Nicaragua Endowment Fund Manual as the case may be, satisfactory to the Bank have been issued;
- (iii) the respective Asset Management Contract has been signed by the parties thereto; and

- (iv) an amount at least equivalent to the total amount to be disbursed from the GEF Trust Fund Grant Account has been deposited respectively in the Nicaragua Endowment Fund or the Honduras Endowment Fund by other donors.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods and non-consultant services costing less than \$150,000 equivalent per contract; (b) works costing less than \$1,500,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$200,000 equivalent per contract, and (e) Subprojects, Research Grants, Scholarship Grants, Operating Costs and Endowment Fund contributions, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the GEF Trust Fund Grant Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the GEF Trust Fund Grant Account, the Recipient shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

- 1. (a) The Recipient may open and maintain in Dollars a special deposit account in a commercial Bank acceptable to the Bank;
- (b) Nicaragua; and
- (c) Honduras, may open and maintain in Dollars a special deposit account each in their respective Central Banks;

all on terms and conditions satisfactory to the Bank, including in respect of the CCAD Special Account appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the respective Special Account has been opened, withdrawals from the GEF Trust Fund Grant Account of amounts to be deposited into the respective Special Account shall be made as follows:

- (a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the respective Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the respective Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the respective Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the GEF Trust Fund Grant Account; or

(c) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Accounts; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into any Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into any Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Bank determines at any time that any payment out of any Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the respective Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into any Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in any Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Recipient may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the GEF Trust Fund Grant Agreement.

**Annex A  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not  
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of: (a) \$100,000 in respect of the CCAD Special Account; (b) \$550,000 in respect of the Honduras Special Account; and (c) \$550,000 in respect of the Nicaragua Special Account, to be withdrawn from the GEF Trust Fund Grant Account and deposited into the respective Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Withdrawals of any Authorized Allocations and subsequent withdrawals to replenish the respective Special Accounts shall be made as follows:

(a) For withdrawals of any Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the respective Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the respective Special Account such amount as the Recipient shall have requested.

(b) For replenishment of any Special Account, the Recipient shall furnish to the Bank requests for deposit into the respective Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the respective Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the respective Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the respective Special Account, once the total unwithdrawn amount of the GEF Trust Fund Grant minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the respective Authorized Allocation. Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall

have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are  
Report-based Disbursements**

1. Withdrawals from the GEF Trust Fund Grant Account shall be deposited by the Bank into the Special Accounts in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Accounts shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.
  
2. Upon receipt of each application for withdrawal of an amount of the GEF Trust Fund Grant, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to improve the national and binational management of the CTBR, respecting the rights of its traditional occupants.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Bank may agree upon from time to time to achieve such objective.

Part A:            Consolidation of the CTBR

1.     (a)     Development of a framework for the regularization of land tenure and of natural resources in protected areas in Honduras including, *inter alia*, the development of:
  - (i)       a strategy for the regularization of indigenous lands in the CTBR Protected Areas; and
  - (ii)      the procedures for demarcation and regularization of such lands.
- (b)     Implementation of mechanisms leading to the finalization of the registration of indigenous land titles in Nicaragua's CTBR Protected Area, including, *inter alia*, the negotiations of amicable agreements with third parties residing therein.
- (c)     Capacity building of indigenous communities as needed to support the land regularization processes in (a) and (b) above.
2.     Establishment and/or strengthening of a mechanism for binational coordination of the CTBR including, *inter alia* the operation of:
  - (a)       the Steering Committee including its conflict resolution mechanism;
  - (b)       a binational forum with Indigenous People's representatives; and
  - (c)       the Binational Technical Committee.
3.     Provision of technical and other support to assist the Member Countries (and as necessary, CCAD) to propose the establishment of the CTBR as a UNESCO approved reserve including:
  - (a)       interaction with UNESCO and other international organizations; and

(b) dissemination and promotion activities of the CTBR's declaration proposal as a binational reserve.

Part B: Strengthening of the National Protected Areas Systems of Nicaragua and Honduras

1. Development of natural resource management, sectoral planning, and decentralization instruments at the regional, municipal and other local level as needed for the modernization of Nicaragua's system of protected areas.
2. Establishment and capitalization of the Nicaragua Endowment Fund and associated financial sustainability mechanisms.
3. Implementation of improved management practices in Honduras' system of protected areas.
4. Establishment and capitalization of the Honduras Endowment Fund and associated financial sustainability mechanisms.

Part C: Implementation of Management Plans in the CTBR

1. Harmonization, updating and implementation of Management Plans in the CTBR Protected Areas in Nicaragua's and Honduras' respective jurisdictions, covering, *inter alia*:
  - (a) updating of the Management Plans in the CTBR Protected Areas;
  - (b) dissemination of the Management Plans and stakeholder consensus building;
  - (c) implementation of Management Plans (excluding those activities implemented with financing from GTZ/KFW);
  - (d) strengthening of regional, departmental and municipal capacity to implement Management Plans; and
  - (e) monitoring of the Management Plans' implementation.
2. Strengthening the participation of communities, Indigenous Peoples and civil society in the implementation of the Management Plans in the CTBR Protected Areas in Nicaragua's and Honduras' respective jurisdictions, including, *inter alia*:
  - (a) evaluation of the administrative and organizational capacity to participate in co-management activities;

- (b) promotion of community participation; and
- (c) carrying out of Co-Management Promotion Subprojects.

Part D: Community-based Natural Resource Management

1. Strengthening the local governance of natural resources in the CTBR in each of the Member Countries' respective jurisdictions, including, *inter alia*:

(a) carrying out of an awareness campaign aiming at enhancing local capacities for managing the CTBR Protected Areas and the exchange of experiences on community management of natural resources;

(b) training of local organizations on community-based natural resource management aimed, *inter alia*, at the establishment of networks of environmental leaders at the community and municipal level in natural resource management;

(c) provision of scholarship grants for: (i) technical training on environmental sciences or rural development; and (ii) participation of community members in technical and organizational training courses (Scholarships Grants);

(d) provision and improvement of inter-community communication systems; and

(e) provision of technical experts to assist in the implementation of Part C of the Project.

2. Carrying out of activities designed to promote sustainable natural resource management through local socio-economic development (the Community Subprojects) including, *inter alia*:

(a) farm diversification;

(b) community ecotourism;

(c) community productive infrastructure;

(d) transformation, transport and marketing of agricultural products;

(e) native fauna farms; and

(f) production and marketing of medicinal plants.

Part E: Monitoring and Information Management

1. (a) Harmonization of monitoring indicators and criteria among the CTBR Protected Areas, and information collection for monitoring; and

(b) strengthening the capacity and infrastructure needed for monitoring and to manage information generated by the CTBR,

all in respect of the CCAD Subcomponents, the Nicaragua Subcomponents and the Honduras Subcomponents.

2. (a) Establishment of strategic partnerships with national and international academic and research centers to undertake scientific biodiversity research on the CTBR in Nicaragua and Honduras;

(b) (i) identification of scientific biodiversity research needs in the CTBR; and (ii) provision of Research Grants; and

(c) support to the exchange among Indigenous Peoples of their traditional knowledge and practices in the management of biodiversity.

3. Carrying out of an environmental education strategy in Nicaragua and Honduras.

Part F: Project Management

1. (a) Establishment and operation of a Project coordination unit in CCAD;

(b) carrying out of activities to promote synergies of the Project and its sustainability, including, *inter alia*, the design and implementation of a communication strategy on the Project; and

(c) implementation of a monitoring and evaluation system for all Parts of the Project.

2. Completion of Project preparation and operation of the Nicaragua PCU.

3. Completion of Project preparation and operation of the Honduras PCU.

\* \* \*

The Project is expected to be completed by February 1, 2012.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

##### Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient and/or the Member Countries as the case may be.

##### B. Other Procurement Procedures

1. National Competitive Bidding. Goods and Non-consultants' Services estimated to cost less than \$150,000 equivalent per contract and works estimated to cost less than \$1,500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding, using standard bidding documents satisfactory to the Bank.

2. Shopping. Goods and Non-Consultants' Services estimated to cost less than \$50,000 equivalent per contract and works estimated to cost less than \$150,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

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

4. Community Participation. Goods, works and services required for Subprojects under Parts C and D of the Project may be procured on the basis of community participation in accordance with procedures acceptable to the Bank and set forth in the Operational Manual.

### Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

#### B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraph 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis..

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

#### **SCHEDULE 4**

##### **Provisions Regarding Management Plans or Subprojects for/or Affecting a Protected Area**

No Management Plans or Subprojects in or affecting a CTBR Protected Area may involve or relate to:

- (a) investments in timber harvesting operations or in timber processing equipment (except with respect to plantations in non-forested areas, in heavily degraded forested areas, or in areas already planted; or except with respect to controlled, community based, sustained-yield forest management; but in no case commercial logging in areas of primary tropical moist forest);
- (b) investments in any road-related civil works or engineering;
- (c) mere consumption or transfer of ownership;
- (d) financing of debts and liabilities;
- (e) purchase or rental of land (except as may be financed with other than GEF Trust Fund Grant proceeds);
- (f) provision of welfare or other social assistance;
- (g) activities relating to, or in preparation for, exploitation of any plant or animal species listed in the Convention on International Trade in Endangered Species of Fauna and Flora (CITES) or in the Member Countries' list of threatened species, except as allowed in CITES or the Member Countries' law;
- (h) use of pesticides that are formulated products within classes IA and IB of the World Health Organization's Recommended Classification of Pesticides by Hazard and Guidelines to Classification (Geneva: World Health Organization, 1994-95; hereinafter WHO Guidelines), or are formulations of products in Class II of the WHO Guidelines;
- (i) reconversion out of shaded coffee or expansion of non-shaded coffee production;
- (j) extensive livestock use;
- (k) introduction or promotion of invasive species not native to the CTBR Protected Area in question;

(l) establishment, maintenance or expansion of timber plantations in forested areas (unless the forested areas in which such actions would take place are heavily degraded); and/or

(m) significant conversion or degradation of critical or other natural habitats (as such terms are defined in the Bank's June 2001 Operational Policy 4.04, Annex A, on natural habitats).

## SCHEDULE 5

### Terms and Conditions of the Tripartite Agreement

#### 1. Tripartite Agreement

The Tripartite Agreement will contain provisions setting forth that:

(a) Each Member Country has satisfied itself as to the feasibility and priority of the Project and shall:

- (i) (A) carry out: (I) the Honduras Subcomponents through SERNA and AFE-COHDEFOR, and with the cooperation of SAG, IP and INA; and (II) the Nicaraguan Subcomponents through MARENA with the cooperation of SEPCA and the Property Agency, all with due diligence and efficiency and in conformity with administrative, financial, economic, social and environmental standards and practices, as well as in conformity with the provisions of the GEF Trust Fund Grant Agreement, the Operational Manual, the Subprojects and Grants Guidelines, the Nicaragua Endowment Fund Manual, the Honduras Endowment Fund Manual and the Approved POAs, as the case may be; and
- (B) provide, promptly as needed, the funds, services and other resources required for the Honduras Subcomponents and the Nicaragua Subcomponents, respectively; and
- (ii) establish not later than three months from the date of this Agreement and maintain during Project implementation:
  - (A) a steering committee to oversee the implementation of the Project including in its functions mechanisms for conflict resolution, and for coordination with the ATP-II Credit and the PBPR Credit; and
  - (B) a binational technical committee to provide guidance in the implementation of the Project; and
- (iii) maintain units to coordinate execution and monitoring of the Project (the Nicaragua PCU and the Honduras PCU) including in the case of the Honduras PCU a fiduciary team assigned from

the unit implementing the PBPR Credit to handle the fiduciary aspects of the Honduras Subcomponents,

all with responsibilities, structure, composition and functions agreed with the Bank;

- (b) Honduras shall, through SEFIN, enter into an agreement with:
  - (i) SERNA, AFE-CODEHFOR, SAG (in its capacity as administrator of the GEF Trust Fund Grant proceeds allocated to the Honduras Subcomponents) for implementation of the Honduras Subcomponents substantially in accordance with the terms assumed by Honduras in the Tripartite Agreement;
  - (ii) SAG (in its capacity as executing agency for the PBPR Credit) setting forth the coordination and cooperation arrangements for the financing out of the proceeds of the PBPR Credit of an amount equivalent to \$12,000,000 of sustainable development activities supplemental to those of the Project; and
  - (iii) IP and INA to set forth their responsibilities in the carrying out of Parts A.1 (a) and (c) of the Project;
- (c) Nicaragua shall, through MARENA, enter into an agreement each with:
  - (i) SEPCA, the Property Agency and any other agency as may be needed to set forth their respective responsibilities in the carrying out of Parts A.1 (b) and (c) of the Project; and
  - (ii) MAG-FOR, as executing agency for the ATP-II Credit, to coordinate and cooperate with MARENA in respect of activities to be carried out in the CTBR Protected Areas and to finance out of the proceeds of the ATP-II Credit an amount equivalent to \$4,000,000 of sustainable development activities supplemental to those of the Project;
- (d) the Member Country shall in respect of the Honduras Subcomponents and the Nicaragua Subcomponents:
  - (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Honduras Subcomponents and the Nicaragua Subcomponents and the achievement of the objective thereof;

- (ii) furnish to CCAD, not later than January 15 of each year, commencing January 15, 2007 a progress report on the execution of the Honduras Subcomponents and the Nicaragua Subcomponents respectively during the calendar year immediately preceding the date of each such report, said report to be of such scope and detail as the Bank may reasonably request and to include the results of the monitoring and evaluation activities performed pursuant to subparagraph (i) above; and
- (iii) carry out, jointly with CCAD and the Bank, not later than March 15 of each year, commencing March 15, 2007, reviews of the progress of the Project and the attainment of the Project objective on the basis of the reports referred to in subparagraph (ii) above;

(e) the Member Country shall, in respect of the Honduras Subcomponent and the Nicaragua Subcomponent, by October 30 of each year during Project implementation, commencing October 30, 2006, prepare and furnish to CCAD, the proposed annual operating plan and budget, agreed with the Bank, detailing the Project activities proposed to be carried out during the next succeeding year and the respective sources of funding therefore, all approved following the procedures of the Operational Manual;

(f) the Member Country shall carry out the Honduras Subcomponents and the Nicaragua Subcomponents in accordance with the Operational Manual, and the Subprojects and Grants Guidelines, said manual and guidelines to include the items set forth in Section 3.04 of this Agreement. In the case of any conflict between the terms of the GEF Trust Fund Grant Agreement and those of the Operational Manual and the Subprojects and Grants Guidelines, the terms of the GEF Trust Fund Grant Agreement shall prevail;

(g) each Member Country shall exercise its rights and comply with its respective obligations under the Tripartite Agreement, the Honduras Inter-Institutional Agreement and the Nicaragua Inter-Institutional Agreement, in such a manner as to accomplish the objectives of the Project, and, except as the Bank shall otherwise agree, not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Tripartite Agreement, the Honduras Inter-Institutional Agreement or the Nicaragua Inter-Institutional Agreement or any provision thereof;

(h) for the purposes of Section 9.07 of the General Conditions and without limitation thereto, each Member Country shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank through CCAD not later than six months after the Closing Date or such later date as may be agreed for

this purpose between the Recipient and the Bank, a plan for the future operation of the Project; and

- (ii) afford the Bank a reasonable opportunity to exchange views with the said plan;
- (i) the Member Country shall in respect of the Honduras Subcomponents and the Nicaragua Subcomponents:
  - (i) procure and cause the Beneficiaries to procure, as the case may be, goods, works and services required for the Project in accordance with the provisions of the GEF Trust Fund Grant Agreement;
  - (ii) enable the Bank to visit the sites and review the records maintained for the Project; and
  - (iii) comply with all other obligations applicable to the Honduras Subcomponents and the Nicaragua Subcomponents set forth in the GEF Trust Fund Grant Agreement.
- (j) each Member Country shall, prior to submitting withdrawal application in respect of Subprojects, Research Grants and Scholarship Grants enter into an agreement with each Beneficiary of Subprojects, Research Grants and Scholarship Grants, substantially in accordance with the respective Model Forms included in the Operational Manual;
- (k) the Member Country shall with respect to Parts B.2 and B.4 of the Project:
  - (i) issue a manual, satisfactory to the Bank, setting forth specific rules and procedures for the operation of the Nicaragua Endowment Fund and the Honduras Endowment Fund including, *inter alia*, the Endowment Funds':
    - (A) governance structure;
    - (B) financial structure and asset manager's role;
    - (C) mechanisms to finance investments and operational costs of Endowment Fund Protected Areas and preparation and implementation of the management plans related thereto; and
    - (D) the disbursement, auditing and reporting requirements;

- (ii) deposit within the respective Endowment Fund all proceeds of the GEF Trust Fund Grant disbursed under Sub-category (3) (a) or (3) (b) of the table in paragraph A.1 of Schedule 1 to this Agreement as the case may be. Once so deposited, said proceeds shall constitute part of the Endowment Fund's capital, be kept segregated from funds deposited by other donors into such fund; and
- (iii) the Member Country shall provide the Bank with plans for the use of the proceeds of the Endowment Fund (including a description of the procurement requirements for such use) for each year of the Project;

(l) the Endowment Fund's capital shall be invested by the Member Country through a qualified asset manager employed in compliance with procedures acceptable to the Bank acting under a contract, satisfactory to the Bank, between the Member Country and said manager, which contract shall require said manager to:

- (i) invest the Endowment Fund capital in accordance with the instructions issued by the Member Country and set forth in the Honduras or Nicaragua Endowment Fund Manual, as the case may be;
- (ii) for each year of Project implementation, only release to the Member Country investment income derived from the Endowment Fund's capital;
- (iii) not later than one month after the end of each semester in the relevant year of Project implementation, provide to the Member Country and the Bank bi-annual reports regarding management performance, capital value, asset allocation, and investment income (including dividends) with respect to the Endowment Fund; and
- (iv) provide the Member Country with information required by the Member Country to comply with its obligations under Article IV of this Agreement in respect of the Endowment Fund;

(m) the Member Country shall exercise its rights and carry out its obligations under the Asset Management Contract in such a manner so as to protect the interests of the Bank and to accomplish the purposes of the GEF Trust Fund Grant. Except as the Bank may otherwise agree, the Member Country shall not amend, waive or fail to enforce any provision of the Asset Management Contract. In case of any conflict between the terms of

the Asset Management Contract and those of this Agreement, the terms of this Agreement shall prevail; and

(n) amounts released by the Asset Manager to the Member Countries under paragraph (l) (ii) of Schedule 5 to this Agreement shall be used for financing the investments and/or recurrent costs of Endowment Fund Protected Areas, all as prescribed, *inter alia*, in this Agreement, the Honduras or Nicaragua Endowment Fund Manual, as the case may be.

## 2. General

All agreements contemplated by this Schedule shall contain provisions that in case of any conflict of any provision of the Tripartite Agreement, the Honduras Inter-Institutional Agreement or the Nicaragua Inter-Institutional Agreement, with those of the GEF Trust Fund Grant Agreement, the provisions of the GEF Trust Fund Grant Agreement will prevail.