

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF056666-CR

Global Environment Facility Grant Agreement

**(Mainstreaming Market-Based Instruments for Environmental
Management Project)**

among

REPUBLIC OF COSTA RICA

and

FONDO NACIONAL DE FINANCIAMIENTO FORESTAL

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Acting as an Implementing Agency of the Global Environment Facility

Dated May 8, 2007

GEF TRUST FUND GRANT NUMBER TF056666-CR

GLOBAL ENVIRONMENT FACILITY GRANT AGREEMENT

AGREEMENT dated May 8, 2007, entered into among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”), acting as an implementing agency of the Global Environment Facility (“GEF”) for grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF (“GEF Grant Agreement”) and FONDO NACIONAL DE FINANCIAMIENTO FORESTAL (“Recipient”) and the Republic of Costa Rica (Beneficiary). The Bank, the Beneficiary and the Recipient hereby agree as follows:

ARTICLE I – STANDARD CONDITIONS; DEFINITIONS

- 1.01. The GEF Standard Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the GEF Grant Agreement have the meanings ascribed to them in the GEF Standard Conditions or in the Appendix to this Agreement.

ARTICLE II — THE PROJECT

- 2.01. The Recipient declares its commitment to the objective of the Project described in Schedule 1 to this Agreement (“Project”). To this end the Recipient shall: carry out Part 1.A, Part 1.C, Part 1.D, Part 2 and Part 3 of the Project using FONAFIFO-BANCO NACIONAL DE COSTA RICA *Fideicomiso* 544, in accordance with the provisions of Article II of the GEF Standard Conditions.
- 2.02. The Beneficiary declares its commitment to the objective of the Project and, to this end:
 - (a) shall carry out Part 1.B of the Project through its ministry of environment and energy; and
 - (b) (i) shall promptly as needed in respect of the parts of the Project set forth under Section 2.01 above, take or cause to be taken any action necessary or appropriate to enable the Recipient to perform its obligations under the GEF Grant Agreement and the GEF Standard Conditions; and (ii) shall not take or permit to be taken any action which would interfere with the performance of the Recipient’s obligations under this GEF Grant Agreement.

- 2.03. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE III — THE GEF GRANT

- 3.01. The Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to ten million Dollars (\$10,000,000) (“GEF Grant”) to assist in financing the Project.
- 3.02. The Recipient may withdraw the proceeds of the GEF Grant in accordance with Section IV of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. *Fideicomiso* 544, dated August 24, 1999, entered between the Recipient and *Banco Nacional*, shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of the Recipient or *Banco Nacional* to perform any of its obligations with respect to this Agreement and the Project.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Beneficiary to make withdrawals under it (other than the effectiveness of the GEF Grant Agreement) have been fulfilled.
- 5.02. If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if the Grant Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this sub-paragraph until such event (or events) has (or have) ceased to exist.
- 5.03. Without prejudice to the provisions of the GEF Standard Conditions, the Effectiveness Deadline is the date (90) days after the date of this Agreement, but in no case later than the eighteen months after the Bank’s approval of the GEF Grant Agreement which expire on December 10, 2007.

- 5.04. For purposes of Section 6.01 of the GEF Standard Conditions, the date on which the obligations of the Recipient under the GEF Grant Agreement shall terminate is the date 20 years after the date of the GEF Grant Agreement.

ARTICLE VI — ARBITRATION

- 6.01. Any controversy between the parties to the GEF Grant Agreement and any claim by any such party against the other arising under the GEF Grant Agreement which has not been settled by agreement of the parties shall be submitted to arbitration by an arbitral tribunal (“Arbitral Tribunal”) as hereinafter provided.
- (a) The parties to such arbitration shall be the World Bank on the one side and the Recipient on the other side.
 - (b) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: (i) one arbitrator shall be appointed by the World Bank; (ii) a second arbitrator shall be appointed by the Recipient; and (iii) the third arbitrator (“Umpire”) shall be appointed by agreement of the parties or, if they do not agree, by the President of the International Court of Justice or, failing appointment by said President, by the Secretary-General of the United Nations. If either side fails to appoint an arbitrator, such arbitrator shall be appointed by the Umpire. In case any arbitrator appointed in accordance with this Section resigns, dies or becomes unable to act, a successor arbitrator shall be appointed in the same manner as prescribed in this Section for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.
 - (c) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought and the name of the arbitrator appointed by the party instituting such proceeding. Within thirty days after such notice, the other party shall notify to the party instituting the proceeding the name of the arbitrator appointed by such other party.
 - (d) If within sixty days after the notice instituting the arbitration proceeding, the parties have not agreed upon an Umpire, either party may request the appointment of an Umpire as provided in paragraph (b) of this Section.
 - (e) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

- (f) The Arbitral Tribunal shall decide all questions relating to its competence and shall, subject to the provisions of this Section and except as the parties shall otherwise agree, determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.
- (g) The Arbitral Tribunal shall afford to the parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of the Arbitral Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to the GEF Grant Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.
- (h) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as are required for the conduct of the arbitration proceedings. If the parties do not agree on such amount before the Arbitral Tribunal convenes, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by the parties. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.
- (i) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the settlement of controversies between the parties to the GEF Grant Agreement or of any claim by any such party against the other such party arising under the GEF Grant Agreement.
- (j) If, within thirty days after counterparts of the award have been delivered to the parties, the award has not been complied with, any party may: (i) enter judgment upon, or institute a proceeding to enforce the award in any court of competent jurisdiction against any other party; (ii) enforce such judgment by execution; or (iii) pursue any other appropriate remedy against such other party for the enforcement of the award and the provisions of the GEF Grant Agreement.
- (k) Service of any notice or process in connection with any proceeding under this Section or in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 6.02 of the GEF Standard Conditions. The parties to the GEF Grant Agreement waive any and all other requirements for the service of any such notice or process.

ARTICLE VII- REPRESENTATIVE; ADDRESSES

7.01. The Recipient's Representative is its President.

7.02. The Recipient's Address is:

FONAFIFO
Avenida 7, Calles 3 y 5
San José, Costa Rica

Facsimile:
(506) 257-9695

7.03. The Republic of Costa Rica, the Beneficiary under this Agreement, is appointing hereto as its representative its Minister of Finance.

7.04. The Republic of Costa Rica, the Beneficiary under this Agreement, has the following address:

Ministerio de Hacienda
Calle 3 Avenidas 2 y 4
Diagonal al Teatro Nacional
Antiguas instalaciones del Banco Anglo
San Jose
Costa Rica

Facsimile:
(506) 255-4158

The Bank's Address is:

7.05. 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) or 64145 (MCI)	1-202-477-6391

AGREED at San José, Costa Rica, as of the day and year first above written.

REPUBLIC OF COSTA RICA

By /s/ Guillermo Zúñiga Chaves

Authorized Representative

FONDO NACIONAL DE
FINANCIAMIENTO FORESTAL

By /s/ Jorge Eduardo Rodríguez Quirós

Authorized Representative

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

By /s/ Pamela Cox

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to enhance the conservation of globally significant biodiversity in the Beneficiary's territory and ensure such biodiversity's long-term sustainability by supporting the development and implementation of market-based instruments to promote forest conservation in buffer zones of protected areas and biological corridors connecting them.

The Project consists of the following parts:

Part 1: Developing and Implementing Sustainable Financing Mechanisms for the Provision of Environmental Services

- 1.A. Develop appropriate conservation modalities and identify priority areas for land use practices needed to generate hydrological services in respect of watershed conservation, to ensure that funds generated by the water tariff are used to effectively generate hydrological services.
- 1.B. (i) Strengthen and increase the capital of the FBS thereby enabling it to provide sustainable, long-term financing for areas of globally significant biodiversity; and (ii) develop additional financing sources to increase financial resources of the FBS and prepare biodiversity conservation models to assist with the use of related funds.
- 1.C. Develop carbon sequestration projects to finance forest regeneration in degraded areas and, in relation thereto, to increase the sale of verified emission reductions from forests.
- 1.D. Foster a more systematic approach to seeking funding from retail markets or markets based on voluntary contributions to environmental conservation.

Part 2: Scaling-up the PSA Program

- 2.A. Strengthen the Recipient's capacity to implement the expanded PSA Program, including with respect to issuance and monitoring of environmental service contracts that generate global benefits, focusing on enhancing monitoring activities which specifically support biodiversity conservation in priority areas.
- 2.B. Develop and introduce a more targeted and differentiated approach to improve the allocation of PSA Program funds as well as its efficiency.
- 2.C. Establish and/or strengthen appropriate systems to monitor the PSA Program's effectiveness in generating the desired environmental services.

2.D. To Finance Contracts with Participating Landholders.

Part 3: Removing Barriers for Small Landholders' Participation in the PSA Program

- 3.A. Remove key obstacles that can impede the participation by small landholders, including the high transaction costs of dealing with many individual small landholders and the lack of cadastral plans, with specific focus on enhancing participation of the marginalized groups that specifically generate global biodiversity benefits.
- 3.B. Develop and implement watershed management plans in three pilot areas of the Beneficiary's territory with high poverty rates.
- 3.C. Strengthen the monitoring systems related to measuring socioeconomic impacts of the PSA Program, with a particular emphasis on the poor and the small and medium size landholders, including with respect to utilization of PSA Program resources in indigenous areas of the Beneficiary's territory.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional Arrangements

1. The Beneficiary shall:
 - (a) Not later than six months after the Effective Date: (i) cause to be executed the implementation memoranda of understanding satisfactory to the Bank among the Recipient, MINAE and SINAC; and (ii) enter into an agreement, satisfactory to the Bank, with each of the Service Providing Entities selected under the Project (the Service Agreements), setting forth therein, *inter alia*, the terms of reference, the service fees, and all other obligations related to the provision of technical services in respect of the implementation of specific parts of the Project, including the acquisition of goods in relation thereto, all as further specified in the OM.
 - (b) Exercise its rights and carry out its obligations under the memoranda of understanding and the Service Agreements in such a manner as to protect the interests of the Beneficiary, the Recipient and the Bank, and to accomplish the purposes of the GEF Grant, and, except as the Bank shall otherwise agree, the Beneficiary and the Recipient shall not assign, amend, abrogate, waive or fail to enforce the MOUs and the Service Agreements, or any provision thereof.
2. The Beneficiary shall ensure that all the monitoring of water quality and quantity deriving from the activities contemplated under Part 1.A of this Project shall be carried out principally by the water department of MINAE, in collaboration with the Recipient and, as needed, other entities specified in the OM.

B. Implementation Documents

1. (a) The Beneficiary has caused the Recipient to adopt an operational manual dated April 28, 2006 satisfactory in form and substance to the Bank setting forth rules, methods, guidelines, standard documents and procedures for the carrying out of the Project, including the following:
 - (i) (A) the detailed description of Project implementation activities, their sequencing and the prospective timetable and benchmarks in relation thereto; and (B) the institutional arrangements in

respect thereof, including the allocation of duties between the Recipient and the other Participating Institutions and the terms and conditions for their respective participation and all related procedures;

- (ii) the Project administrative, accounting, auditing, reporting, financial, and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto;
- (iii) the Indigenous People's Development Plan;
- (iv) the Environmental Management Plan, including, *inter alia*: (A) the eligibility criteria and biodiversity prioritization criteria specifically prepared in respect of the Project for the selection of new land under Part 2.D.of Schedule 1 to this Agreement; and (B) by reference to the Beneficiary's operations manual for the PSA Program dated January 19, 2005, the eligibility criteria for Participating Landholders, and the terms and conditions for the ensuing Contracts between the Recipient and said Participating Landholders, including the procedures for assessing compliance of the Participating Landholders with all terms and conditions of the Contracts;
- (v) the selection criteria for NGOs and Service Providing Entities admitted to participate in Project implementation and the terms and conditions for their participation;
- (vi) the plan for the training and capacity building activities under the Project including all relevant technical advisory services to indigenous peoples development associations with Contracts to prepare their investment plans;
- (vii) the plan for the monitoring and supervision of the Project, including all environmental, macroeconomic, social and PSA indigenous participation aspects in relation thereto; and
- (viii) the Performance Indicators for the Project.

(b) The Recipient shall carry out the Project in accordance with the OM.

2. In the event that any provision of the OM shall conflict with any one under this Agreement, the terms of this Agreement shall prevail.

3. The Recipient may amend the OM from time to time, only in consultation with, and after approval, of the Bank, including the parts drawn from the operations manual of the PSA Program of the Beneficiary dated January 19, 2005 and which are relevant for the implementation of the Project specifically.

C. Other Implementation Arrangements

1. The Beneficiary shall, through MINAE assisted by FONAFIFO, establish, not later than March 30, 2007, *Fundación Banco Ambiental*, satisfactory to the Bank which shall be responsible for administering the proceeds of the GEF Grant made available to FBS under Part 1.B of this Agreement.
2. The Beneficiary, through MINAE, shall thereafter and not later than April 30, 2007, cause the Recipient to enter into an agreement with FBA satisfactory to the Bank (the Cooperation Agreement), therein setting forth, *inter alia*, the following:
 - (a) the commitment of FBA to establish, not later than June 30, 2007, *Fondo para la Biodiversidad Sostenible*, satisfactory to the Bank;
 - (b) the commitment of FBA to enter into an agreement with FBS satisfactory to the Bank, (the FBS Trust Agreement) wherein shall be set forth, *inter alia*: (i) the requirement that FBA shall administer the proceeds of the GEF Grant made available to FBS under Part 1.B of the Project; and (ii) the right of FBA to collect annually from FBS, as its operating costs under the Project, up to 15% of the return on investments made by FBS; and
 - (c) the commitment that GEF Grant proceeds for the capitalization of FBS under Part 1.B of the Project shall be transferred to FBA, under the FBS Trust Agreement between FBA and FBS, only after completion of a financial management assessment of FBA satisfactory to the Bank.
3. The Beneficiary commits to transfer from its treasury account (*caja unica*) to the account of FBS opened in a financial institution satisfactory to the Bank, the proceeds of the GEF Grant needed in respect of the implementation of Part 1.B of the Project, to be set forth as such in a separate agreement that the Beneficiary, through MINAE, shall cause to be entered between the Recipient and FBS (the Participation Agreement) not later than 30 days after its effective establishment carried out by FBA pursuant to the Cooperation Agreement.
4. The Beneficiary, through MINAE, shall, under the Participation Agreement, and shall cause the Recipient to ensure under the Cooperation Agreement and the FBS trust Agreement, that: (a) FBA and FBS are subject, throughout Project

implementation, to the Consultant Guidelines, the Procurement Guidelines, and the Bank's financial management guidelines, including the carrying out of financial audits in relation thereto; and (b) legal representation and administration of the FBA and FBS, including, *inter alia*, Board of Directors and other managerial and executive functions in respect of FBA and FBS are and remain at all times during Project implementation satisfactory to the Bank, and that any changes to such legal representation and administration can only be made in consultation with and after approval of the Bank.

5. The Beneficiary, through MINAE shall: (a) exercise and shall also cause to be exercised, its rights, the right of the parties to the respective agreements referred to in this Section and the Recipient's rights; and (b) shall carry out and as well, shall cause to be carried out, its obligations, the obligations of the parties to the respective agreements referred to in this Section and the Recipient's obligations under the Cooperation Agreement, the FBS Trust Agreement and the Participation Agreement respectively, in such a manner as to protect its interests, those of the parties to the respective agreements referred to in this Section, the Recipient's and the Bank's and to accomplish the purposes of the GEF Grant, and, except as shall be otherwise decided in consultations with and after approval of the Bank, the Beneficiary shall not and shall cause not to be assigned, amended, abrogated, waived or failed to be enforced the Cooperation Agreement, the FBS Trust Agreement and the Participation Agreement or any provision thereof.
6. (a) The Recipient shall design and not later than March 31, 2008, initiate:
 - (i) the implementation of a plan that assigns different levels of payment for environmental services to different regions of the Beneficiary's territory thus allowing the efficiency of the payment for environmental services under the Project, as measured by total payments per covered area, to be maintained or even increased;
 - (ii) the activities for the implementation of the PSA Program under the watershed management plans to be prepared in three pilot areas of the Beneficiary's territory with high poverty rates, as further set forth in the OM; and
 - (iii) the implementation of a monitoring and evaluation plan measuring the impact of the Project on biodiversity, carbon sequestration and socio-economic conditions.
- (b) The Recipient shall prepare on a yearly basis throughout the course of Project implementation, updated schedules to the OM reflecting the

status of the implementation of the differentiated payments for environmental services under the Project.

7. The Recipient and the Bank shall cooperate fully to assure that the purposes of the GEF Grant and the objectives of the Project will be accomplished, and to this end: (a) from time to time, at the request of any one of them, exchange views on the Project, the GEF Grant, and the performance of their respective obligations under the GEF Grant Agreement and furnish to each other party all such information related to such matters as it shall reasonably request; and (b) promptly inform the other parties of any condition which interferes with, or threatens to interfere with, such matters.
8. The Beneficiary shall:
 - (a) not later than June 30, 2007 adopt specific rules and procedures for the disbursement of FBS funds;
 - (b) afford, throughout Project implementation, all reasonable opportunity for representatives of the Bank to visit any part of its territory for purposes related to the GEF Grant or the Project;
 - (c) under its budget proposal to its legislature for each FY during Project implementation, make adequate arrangements for the carrying out of all evaluation, monitoring, technical and financial audits required for the Project and set forth under this Agreement, the Loan Agreement and/or the OM; and
 - (d) as counterpart funding for the strengthening of the Recipient's capacity to carry out the expanded PSA Program activities under the Project, authorize the Recipient, through *Fideicomiso* 544, to appoint and/or maintain, on its own terms, personnel required for the implementation of the Project, using therefor annually up to 7% of the corporate budget resources allocated to the Recipient.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06. of the GEF Standard Conditions and on the basis of the Performance Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

2. For purposes of Section 2.06.(d) of the Standard Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than January 31, 2013.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system for itself, FBA and FBS in accordance with the provisions of Section 2.07 of the GEF Standard Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Bank as part of the Project Report not later than forty-five days after the end of each calendar semester, interim un-audited financial reports for the Project, including for FBA and FBS, covering the semester, in form and substance satisfactory to the Bank.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the GEF Standard Conditions. Each audit of the Financial Statements, including for FBA and FBS, shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the GEF Grant shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the GEF Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works and related non-consultant services shall be procured under contracts awarded on the basis of International Competitive Bidding and subject to using Standard Bidding Documents agreed with the Bank.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works and related non consultant services. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding, subject to using Standard Bidding Documents agreed with the Bank
(b) Shopping, subject to using Standard Bidding Documents agreed with the Bank
(c) Direct contracting, subject to the Bank's prior consent

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-based selection
(b) Selection under a fixed budget
(c) Least cost selection
(d) Selection based on consultants' qualifications

Procurement Method
(e) Single source selection, subject to the Bank’s prior consent
(f) procedures for the selection of Individual Consultants, including through single source selection requiring Bank’s prior consent

D. Review by the Bank of Procurement Decisions

1. 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.

Section IV. Withdrawal of the Proceeds of the GEF Grant

A. General

1. The Recipient may withdraw the proceeds of the GEF Grant in accordance with the provisions of this Section and such additional instructions (the Disbursement Letter) as the Bank may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the GEF Grant (“Category”), the allocations of the amounts of the GEF Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<u>Category</u>	<u>Amount of the GEF Grant Allocated (expressed in USD)</u>	<u>Percentage of Expenditures to be Financed</u>
(1) Goods (and related non-consulting services), training and operating costs under Part 1.A, Part1.C and Part1.D of the Project	700,000	100 %
(2) Payments for capitalization of FBS under Part 1.B of the Project	7,500,000	100%

<u>Category</u>	<u>Amount of the GEF Grant Allocated (expressed in USD)</u>	<u>Percentage of Expenditures to be Financed</u>
(3) Goods (and related non-consulting services), consultants' services, training and operating costs, under Part 2 of the Project	1,300,000	100%
(4) Goods (and related non-consulting services), consultants' services and training, under Part 3 of the Project	500,000	100%
TOTAL AMOUNT	10,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made:
 - (a) prior to the date of this Agreement;
 - (b) under Category 2, until and unless: (i) Beneficiary's counterpart funds and/or other Donors' funds have been paid into FBS in compliance with the program of capitalization therefor agreed with the Bank; and (ii) the provisions of Section I.C.2.(a) and Section I.C.3 of Schedule 2 to this Agreement have been complied with; and
 - (c) under Category 3, until and unless conditions agreed with the Bank for the disbursement of GEF Grant proceeds are adopted by the Beneficiary under the PSA Program.
2. The Closing Date is July 31, 2012.

APPENDIX

Section I

1. “*Banco Nacional*” means a commercial bank of the Beneficiary’s established, pursuant to the Borrower’s Constitution, by decree dated October 09, 1914 amended on November 05, 1936.
2. “Category” means any category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Beneficiaries” published by the Bank in May 2004.
4. “Contracts” mean any and all contracts for payment for environmental services financed under the Project and entered into between the Recipient and any Participating Landholder.
5. “Cooperation Agreement” means the agreement between the Recipient and FBA referred to in Section I.C.2 of Schedule 2 to this Agreement.
6. “Disbursement Letter” means the disbursement letter of even date herewith entered between the Bank and the Recipient and setting forth the additional instructions referred to in Section IV.A.1 of Schedule 2 to this Agreement.
7. “Donor” means any country, bilateral or multilateral agency, public or private financial institution, development finance institution or international organization, which is proposing to make, or has made, financing available to the Recipient on a grant basis or under concessional terms to support a development program of the Recipient.
8. “Effectiveness Condition” means any condition which must be met by the Recipient before this Agreement can become effective after evidence thereof shall have been furnished satisfactory to the Bank.
9. “Effective Date” means the date upon which the Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to paragraph 8 above.
10. “Effectiveness Deadline” means a date by which this Agreement and all obligations of the parties hereunder shall terminate if this Agreement has not entered into effect by the date specified in Section 5.03, unless the Bank, after consideration of the reasons for the delay, establishes a later Effectiveness Deadline for the purpose of this Agreement. The Bank shall promptly notify the Recipient and the Beneficiary of such later Effectiveness Deadline.

11. “Environmental Management Plan” means the plan for the implementation of the Project included in the OM and setting forth, *inter alia*, criteria and procedures to help ensure good environmental outcomes and prevent any adverse environmental impacts arising from Project implementation.
12. “FBS” means *Fondo para la Biodiversidad Sostenible*, the Beneficiary’s Trust Fund for Sustainable Biodiversity Conservation to be established under the PSA Program with its technical commission chaired by the Recipient.
13. “FBS Trust Agreement” means the agreement between FBA and FBS referred to in Section I.C.2.(b) of this Agreement.
14. “Fiscal Year” and “FY” mean the Recipient’s fiscal year beginning January 1 and ending December 31 of the next calendar year.
15. “*Fundación Banco Ambiental*” and “FBA” mean a private entity to be established for the management of resources for biodiversity conservation, as referred to in Section I. C.1. of Schedule 2 to this Agreement.
16. “GEF Standard Conditions” means the Standard Conditions for Grants of the Global Environment Facility dated March 22, 2006.
17. “INBio” means the *Instituto Nacional de Biodiversidad*, the national biodiversity institute created in the Beneficiary’s territory in 1989 as a private research and biodiversity management center.
18. “Indigenous People’s Development Plan” means the plan prepared by the Recipient for the development of indigenous peoples under the Project and disclosed to the general public on March 02, 2006.
19. “JUNAFORCA” means *Junta Nacional Forestal Campesina*, the Beneficiary’s national farmers’ forestry board, a non-profit entity established and operating pursuant to the laws of the Beneficiary.
20. “Loan Agreement” means the agreement for the financing of the Project, of even date herewith, entered into between the Beneficiary and the International Bank for Reconstruction and Development.
21. “MINAE” means *Ministerio de Ambiente y Energía*, the Beneficiary’s ministry of environment and energy.
22. “MOU” means any and all memoranda of understanding referred to in Section I of Schedule 2 to this Agreement.

23. “NGO” means a non-governmental organization established and operating under the laws of the Beneficiary selected to carry out specific activities under the Project.
24. “OM” means the operation manual for the Project referred to in paragraph B.1 (a) of Section I of Schedule 2 to this Agreement.
25. “ONF” means *Oficina Nacional Forestal*, the Beneficiary’s national forestry office established by Law no. 7575 of the Beneficiary dated February 13, 1996.
26. “Operating costs” means in respect of Categories 1 and 3 respectively in the table of Section IV.A. 2 of Schedule 2 to this Agreement, the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs and salaries of locally contracted employees.
27. “Participation Agreement” means the agreement between the Recipient and FBS referred to in Section I. C. 3.of Schedule 2 to this Agreement.
28. “Participating Landholder” means any individual, group of persons or entities in the Project’s area of the Beneficiary’s territory having legal title or possession to a piece of land pursuant to all pertinent laws of the Beneficiary and determined to be eligible to participate in the PSA Program, in accordance with the eligibility criteria set forth or referred to in the OM.
29. “Performance Indicators” means the indicators agreed between the Recipient and the Bank for evaluating the performance of the Project and set forth in the OM.
30. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
31. “Procurement Plan” means the Recipient’s procurement plan for the Project, signed and dated March 13, 2006 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
32. “PSA Program” means *Programa de Pago por Servicios Ambientales*, the Beneficiary’s program for payment of environmental services.
33. “Service Agreements” means the agreements referred to in Section I.A.1 (a) (ii) of Schedule 2 to this Agreement.

34. “Service Providing Entity” means INBio, ONF or JUNAFORCA taken separately and, in the plural form, all of them taken collectively.
35. “SINAC” means *Sistema Nacional de Áreas de Conservación*, the national system of conservation areas, a decentralized and participatory institutional management system of the Beneficiary that unifies MINAE’s competencies regarding forestry, wildlife and protected areas matters, or any successor thereto.
36. “Training” means in respect of Categories 1, 3 and 4 respectively in the table of Section IV.A.2 of Schedule 2 to this Agreement: (i) reasonable travel, room, board and per diem expenditures as incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under said Section IV.A.2 of Schedule 2 to this Agreement.