

CONFORMED COPY

LOAN NUMBER 7388-CR

Loan Agreement

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

between

REPUBLIC OF COSTA RICA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 8, 2007

LOAN NUMBER 7388-CR

LOAN AGREEMENT

Agreement dated May 8, 2007, between REPUBLIC OF COSTA RICA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I—GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General 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 Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II—LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty million Dollars (\$30,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which the Commitment Charge commences to accrue in accordance with the provisions of Section 3.01 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter; subject in either case to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. The Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.

- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.
- 2.06. The Payment Dates are May 15 and November 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III—PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project and the PSA Program. To this end, the Borrower shall:
- (a) carry out Part 1.B of the Project through its ministry of environment and energy;
- (b) cause FONAFIFO to 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; and
- (c) all, in accordance with the provisions of Article V of the General Conditions.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV—REMEDIES OF THE BANK

- 4.01. (a) Law no. 7575 of the Borrower, as amended to date, 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 Borrower to perform any of its obligations under the Loan Agreement, and /or the ability of FONAFIFO to perform any of its obligations with respect to the Project; and
- (b) *Fideicomiso* 544 dated August 24, 1999 entered between FONAFIFO 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 Borrower to perform any of its obligations under the Loan Agreement, and /or the ability of FONAFIFO or Banco Nacional to perform any of its obligations with respect to the Project.
- 4.02. Any of the events specified in Section 7.02 (g) of the General Conditions shall occur with respect to the GEF Grant Agreement and shall continue for 60 days after written notice thereof shall have been given by the Bank.
- 4.03. The Additional Event of Acceleration consist of the following, namely, that the event specified in Section 4.01 of this Agreement shall occur.

ARTICLE V—EFFECTIVENESS

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Subsidiary Agreement, satisfactory to the Bank, has been executed on behalf of the Borrower and FONAFIFO and has become effective; and
- (b) the GEF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of the Loan Agreement) have been fulfilled.
- 5.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and

FONAFIFO and is legally binding upon the Borrower and FONAFIFO in accordance with its terms.

- 5.03. Without prejudice to the provisions of the General 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 Loan which expire on December 10, 2007.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Finance.

- 6.02. The Borrower's Address is:

Ministerio de Hacienda
Calle 3 Avenidas 2 y 4
Diagonal al Teatro Nacional
Antiguas instalaciones del Banco Anglo
San Jose
Costa Rica 7.05

Facsimile:
(506) 255-4158

- 6.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD	248423(MCI) or	1-202-477-6391
Washington, D.C.	64145(MCI)	

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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 territory of the Borrower 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 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 FONAFIFO'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 Borrower'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 Borrower's territory.

SCHEDULE 2**Project Execution****Section I. Subsidiary Financing, Institutional and Other Arrangements****A. Subsidiary Agreement**

1. to facilitate the carrying out of the Project by FONAFIFO, the Borrower pursuant to a subsidiary agreement between the Borrower and FONAFIFO made under terms and conditions approved by the Bank (“Subsidiary Agreement”) shall: (a) make the proceeds of the Loan available to FONAFIFO; and (b) take all legal and policy measures needed to fully enable FONAFIFO to discharge its duties under this Agreement; and
2. the Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

B. Institutional Arrangements

1. The Borrower 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 MINAE, SINAC and FONAFIFO; 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 said MOUs and Service Agreements respectively in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower, FONAFIFO and FBA shall not assign, amend, abrogate, waive or fail to enforce the MOUs, any Service Agreement, or any provision thereof.
2. The Borrower 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 FONAFIFO and, as needed, other entities specified in the OM.

C. Implementation Documents

1. (a) The Borrower has caused FONAFIFO to adopt an operational manual dated April 28, 2006 satisfactory in form and substance to the Bank and consisting of different schedules setting forth respectively rules, methods, guidelines, specific development plans, 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 and the agreements to be entered in relation thereto;
 - (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 Borrower'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 FONAFIFO 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, evaluation and supervision of the Project, including all environmental, macroeconomic, social and

PSA Program indigenous participation aspects in relation thereto; and

(viii) the Performance Indicators for the Project.

(b) The Borrower 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 Borrower shall cause FONAFIFO to 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.

D. Other Implementation Arrangements

1. The Borrower 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 Borrower shall thereafter, through MINAE, and not later than April 30, 2007, cause FONAFIFO 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 Borrower 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 Borrower, through MINAE, shall cause to be entered between FONAFIFO 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 Borrower, through MINAE, shall, under the Participation Agreement, and shall cause FONAFIFO 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 Borrower, 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 FONAFIFO'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 FONAFIFO'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, FONAFIFO'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 Borrower 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. The Borrower shall, under each budget proposal to its legislature for the corresponding 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 and/or the OM.
7. The Borrower shall, as counterpart funding for the strengthening of FONAFIFO's capacity to carry out the expanded PSA Program activities under the Project, authorize FONAFIFO, through *Fideicomiso* 544, to appoint and/or maintain, on its own terms, personnel required for the implementation of the Project, using therefore annually up to 7% of FONAFIFO's allocated corporate budget resources.

8. The Borrower shall cause FONAFIFO to design and, not later than March 31, 2008, to initiate:
 - (a) the implementation of a plan that assigns different levels of payment for environmental services to different regions of the Borrower'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;
 - (b) the activities for the implementation of the PSA Program under the watershed management plans to be prepared in three pilot areas with high poverty rates in its territory, as further set forth in the OM; and
 - (c) the implementation of a monitoring and evaluation plan measuring the impact of the Project on biodiversity, carbon sequestration and socio-economic conditions.
9. The Borrower shall cause FONAFIFO to 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.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General 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 5.08 (c) of the General 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 Borrower, through FONAFIFO, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower, through FONAFIFO, 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 covering the semester, in form and substance satisfactory to the Bank.

3. The Borrower, through FONAFIFO, shall have the Financial Statements for the Project audited, including those of FBA and FBS, in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one Fiscal Year. 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. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions (the Disbursement Letter) as the Bank may specify by notice to the Borrower 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 Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	Amount of the Loan Allocated (<u>expressed in USD</u>)	Percentage of Expenditures to be <u>financed</u>
(1) Contracts for payments for environmental services	30,000,000	100%
TOTAL	30,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawals shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is July 31, 2012.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 15 and November 15:	5 %
Beginning November 15, 2011 through May 15, 2021	

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as

withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX**Section I. Definitions**

1. “*Banco Nacional*” means a commercial bank of the Borrower, established, pursuant to the Borrower’s Constitution, by decree dated October 09, 1914 amended on November 05, 1936.
2. “Category” means the category set forth in the table in Section III of Schedule 2 to this Agreement.
3. “Contracts” mean any and all contracts for payment for environmental services financed under the Project and entered into between FONAFIFO, on behalf of the Borrower, and any Participating Landholder.
4. “Cooperation Agreement” means the agreement between FONAFIFO and FBA referred to in Section I.D.2. of Schedule 2 to this Agreement.
5. “Disbursement Letter” means the disbursement letter of even date herewith entered into between the Bank and the Borrower setting forth the additional instructions referred to in Section III.A.1. of Schedule 2 to this Agreement.
6. “Environmental Management Plan” means the plan for the implementation of the Project setting forth, *inter alia*, criteria and procedures to help ensure good environmental outcomes and prevent any adverse environmental impacts from Project implementation.
7. “FBS” means *Fondo para la Biodiversidad Sostenible*, the Borrower’s Trust Fund for Sustainable Biodiversity Conservation to be established under the PSA Program with its technical commission chaired by FONAFIFO.
8. “FBS Trust Agreement” means the agreement between FBA and FBS referred to in Section I.D.2.(b) of Schedule 2 to this Agreement.
9. “Fiscal Year” and “FY” mean FONAFIFO’s fiscal year beginning January 1 and ending December 31 of the next calendar year.
10. “FONAFIFO” means *Fondo Nacional de Financiamiento Forestal*, the Borrower’s forestry financing fund established by law no. 7575 of the Borrower dated February 13, 1996, as amended to date, which in 2003 has taken on responsibility for the implementation of the PSA Program.
11. “FONAFIFO-BANCO NACIONAL DE COSTA RICA *Fideicomiso 544*” and “*Fideicomiso 544*” mean the trust agreement dated August 24, 1999 entered

between FONAFIFO and the Borrower's *Banco Nacional* for purposes of administering the financial resources of FONAFIFO.

12. “*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.D.1. of Schedule 2 to this Agreement.
13. “GEF Grant Agreement” means the agreement for the financing of the Project, of even date herewith, entered into between FONAFIFO and the Bank as implementing agency of the Global Environmental Facility (GEF).
14. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
15. “INBio” means the *Instituto Nacional de Biodiversidad*, the national biodiversity institute created in the Borrower's territory in 1989 as a private research and biodiversity management center.
16. “Indigenous People's Development Plan” means the plan prepared by the Borrower for the development of its indigenous people under the Project and disclosed to the general public on March 02, 2006.
17. “JUNAFORCA” means *Junta Nacional Forestal Campesina*, the Borrower's national farmers' forestry board, a non-profit entity established and operating pursuant to the laws of the Borrower.
18. “MINAE” means *Ministerio de Ambiente y Energía*, the Borrower's ministry of environment and energy.
19. “MOU” means any and all memoranda of understanding referred to in Section I.B.1.(a)(i) of Schedule 2 to this Agreement.
20. “NGO” means a non-governmental organization established and operating under the laws of the Borrower, selected to carry out specific activities under the Project.
21. “OM” means the operational manual for the Project referred to in Section I.C. 1.(a) of Schedule 2 to this Agreement.
22. “ONF” means *Oficina Nacional Forestal*, the Borrower's national forestry office established by law No. 7575 of the Borrower dated February 13, 1996.
23. “Participation Agreement” means the agreement between the Recipient and FBS referred to in Section I.D.3. of Schedule 2 to this Agreement.

24. “Participating Landholder” means any individual, group of persons or entities in the Project’s area of the Borrower’s territory having legal title or possession to a piece of land pursuant to all pertinent laws of the Borrower and determined to be eligible to participate in the PSA Program in accordance with the eligibility criteria set forth in the OM.
25. “Performance Indicators” means the indicators agreed between the Borrower and the Bank for evaluating the performance of the Project and set forth in the OM.
26. “PSA Program” means *Programa de Pago por Servicios Ambientales*, the Borrower’s program for payment of environmental services.
27. “Service Agreements” means the agreements referred to in Section I.B.1.(a)(ii) of Schedule 2 to this Agreement.
28. “Service Providing Entity” means INBio, ONF or JUNAFORCA taken separately and, in the plural form, all of them taken collectively.
29. “SINAC” means *Sistema Nacional de Áreas de Conservación*, the national system of conservation areas, a decentralized and participatory institutional management system of the Borrower that unifies MINAE’s competencies regarding forestry, wildlife and protected areas matters, or any successor thereto.
30. “Subsidiary Agreement” means the agreement referred to in Section I.A of Schedule 2 to this Agreement pursuant to which the Borrower shall make the proceeds of the Loan available to FONAFIFO.