

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF055925

Global Environment Facility Trust Fund Grant Agreement

(Protected Areas Consolidation and Administration Project)

between

REPUBLIC OF EL SALVADOR

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated May 15, 2006

GEF TRUST FUND GRANT NUMBER TF055925

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated May 15, 2006, between REPUBLIC OF EL SALVADOR (the Recipient) 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 has also requested the Bank to provide additional financing for Part B of the Project and by an agreement dated August 29, 2005 between the Recipient and Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to forty million two hundred thousand Dollars (\$40,200,000) (the Loan);

(D) 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; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend a grant (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) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *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 Borrower 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 Borrower, 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.”

- (vii) 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”; and
- (viii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 are replaced with the words “corrupt, fraudulent, collusive or coercive”.

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) “ADESCOS” means *Asociación de Desarrollo Comunal*, the Recipient’s Community Development Associations;

(b) “CENDEPESCA” means *Centro de Desarrollo para la Pesca y la Acuicultura*, the Recipient’s National Fisheries and Aquaculture Development Center which is part of MAG (as hereinafter defined);

(c) “CNR” means *Centro Nacional de Registros*, the Recipient’s National Center of Registries: (i) created by the Recipient’s Executive Decree No. 62 of December 5, 1994 and published in the Recipient’s Official Gazette No. 227, Volume No. 325 of December 7, 1994, as amended by Executive Decree No. 94 of September 19, 1997, Executive Decree No. 6 of June 1, 1999 and Executive Decree No. 23 of March 19, 2001; and (ii) granted administrative and financial autonomy by the Recipient’s Legislative Decree No. 462, dated October 5, 1995, published in the Recipient’s Official Gazette No. 187, Volume 329 of October 10, 1995;

(d) “CNR Participation Agreement” means the agreement referred to in Section 3.01 (b) of this Agreement;

(e) “CONCULTURA” means *Consejo Nacional para la Cultura y el Arte*, the Recipient’s National Cultural and Arts Council, created by the Recipient’s Executive Decree No. 55 of September 20, 1990;

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

(g) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(h) “Environmental Procedures” means the procedures for environmental management of infrastructure set forth in the document issued by MARN dated August 26, 2005 (“*Estudio sobre tipología y procedimientos ambientales para obras de infraestructura en Areas Naturales Piloto Preseleccionadas*”);

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

(j) “ISTA” means *Instituto Salvadoreño de Transformación Agraria*, the Recipient’s Agrarian Institute, created by Legislative Decree No. 302 of June 26, 1975 and published in the Recipient’s Official Gazette No. 120, Volume 247 of June 30, 1975;

(k) “ISTA Participation Agreement” means the agreement referred to in Section 3.01 (c) of this Agreement;

(l) “ISTU” means the Recipient’s Institute of Tourism, created by Decree No. 469, dated December 13, 1961 and published in the Recipient’s Official Gazette No. 235, dated December 21, 1961;

(m) “MAG” means the *Ministerio de Agricultura y Ganadería*, the Recipient’s Ministry of Agriculture and Livestock;

(n) “Mangroves” mean those areas defined as “*Bosques Salados*” in the Recipient’s Protected Areas Law (as defined hereinafter);

(o) “MARN” means *Ministerio de Medio Ambiente y Recursos Naturales*, the Recipient’s Ministry of Environment and Natural Resources;

(p) “MINTUR” means *Ministerio de Turismo*, the Recipient’s Ministry of Tourism;

(q) “NGO” or “non-governmental organization” means a non-governmental organization established and operating in the Recipient’s territory;

(r) “NPAS” or “natural Protected Areas system” means all areas considered as Protected Areas (as hereinafter defined), including Mangroves;

(s) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(t) “PCU” means the Project coordinating unit referred to in Section 3.04 of this Agreement;

(u) “Pilot Protected Areas” means the following Recipient’s biodiversity reserves as defined in the Operational Manual: (i) *Bahía de Jiquilisco*; and (ii) *Lago Guija Complex San Diego-La Barra*;

(v) “Process Framework” means the framework dated September 2, 2005 and duly adopted by the Recipient, which sets out the mitigation measures to be taken under the Project with respect to potential human resettlement under the Project, as such framework may be revised from time to time with the agreement of the Bank;

(w) “Procurement Plan” means the Recipient’s procurement plan, dated September 7, 2005 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;

(x) “Protected Area” means an area officially designated by the Recipient to be under a special management regime for the primary purpose of ensuring its biodiversity and ecological integrity;

(y) “Protected Areas Law” means the Recipient’s Legislative Decree No. 579, published in the Recipient’s Official Gazette No. 32, dated February 15, 2005;

(z) “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;

(aa) “SIRyC” means *Sistema de Información, Registro y Catastro*, the Recipient’s Property Registry and Cadastre Information System registered in the intellectual property registry of the CNR; and

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

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 five million Dollars (\$5,000,000).

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, and services 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 June 30, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

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 carry out the Project through MARN, with the assistance of CNR as set forth below, with due diligence and efficiency and in conformity with appropriate administrative, environmental, economic, social, financial, and technical practices, and in accordance with the Operational Manual, the CNR Participation Agreement and the ISTA Participation Agreement, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) above, prior to carrying out any activity under Part B.1 of the Project, the Recipient, through MARN, shall enter into an agreement with CNR (the CNR Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role of CNR in the delimitation of Protected Areas under the Project.

(c) Without limitation to the provisions of paragraphs (a) and (b) above, prior to carrying out any activity under Part B.2 of the Project, the Recipient, through MARN, shall enter into an agreement with ISTA (the ISTA Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role of ISTA in the transfer of the Pilot Protected Areas to MARN.

(d) The Recipient, through MARN, shall exercise its rights and carry out its obligations under the CNR Participation Agreement and the ISTA Participation 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, through MARN, shall not amend, assign, abrogate, suspend, terminate, waive or fail to enforce the CNR Participation Agreement, the ISTA Participation 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. (a) The Recipient, through MARN, shall issue an operational manual (the Operational Manual), satisfactory to the Bank, setting forth rules and procedures for the carrying out of the Project, such manual to include, *inter alia*:

- (i) the duties and responsibilities of MARN, ISTA and CNR in Project implementation;
- (ii) the technical, legal, administrative, financial, procurement and monitoring procedures for Project implementation;
- (iii) the Process Framework, which shall include the prohibition of involuntary resettlement in the NPAS;
- (iv) the Environmental Procedures; and
- (v) the updated management plans referred to in Part B.3 of the Project.

(b) The Operational Manual may be amended by MARN from time to time with the prior approval of the Bank. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.04. The Recipient, through MARN, shall, throughout the course of Project implementation, maintain a Project coordinating unit (the PCU) with functions, staffing and responsibilities satisfactory to the Bank, including without limitation a coordinator responsible for overseeing the day-to-day implementation of Project activities, a procurement officer, and a financial management officer.

Section 3.05. The Recipient, through MARN, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 4 to this Agreement, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank not later than six months after the Effective Date and semestally thereafter, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the

efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

(c) review with the Bank, not later than two months after the date of such report, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 3.06. Without limitation to the provisions of Section 3.01 of this Agreement, the Recipient shall: (a) not later than October 31, of each year of Project implementation, starting in the year 2006, prepare and furnish to the Bank an annual work program, acceptable to the Bank, containing the Project activities to be carried out during the calendar year following the date of presentation of said program to the Bank, and a timetable for the completion of said Project activities during the year in question; and (b) thereafter carry out said program in accordance with its terms, and in a manner acceptable to the Bank.

Section 3.07. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, 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, through MARN, shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient, through MARN, shall:

(i) have the 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 financial statements referred to in paragraph (a) of this Section for such year (or 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 and 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, through MARN, shall:

- (i) retain, 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, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in Section 3.05 of this Agreement, the Recipient, through MARN, shall prepare 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 quarter 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 quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

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) CNR shall have failed to comply with any of its obligations under the CNR Participation Agreement.

(b) ISTA shall have failed to comply with any of its obligations under the ISTA Participation Agreement.

(c) The Loan Agreement shall have failed to become effective by January 1, 2007, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

(d) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Recipient to withdraw the proceeds of the Loan made to the Recipient for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Loan Agreement; or

(B) the Loan Agreement shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effectiveness, Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the Operational Manual has been approved by the Bank and adopted by MARN; and

(b) the PCU has been established and staffed as set forth in Section 3.04 of this Agreement.

Section 6.02. The date August 14, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Foreign Affairs 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:

Ministry of Foreign Affairs
Calle Circunvalación
No. 227, Colonia San Benito
San Salvador, El Salvador

Fax: (503) 22439716

Copy to:

MARN
Kilometro 5 ½ Carretera Santa Tecla
Calle y Colonia Las Mercedes
Edificio MARN (Instalaciones ISTA)
San Salvador, El Salvador

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.

REPUBLIC OF EL SALVADOR

By /s/ Michelle Gallardo de Gutiérrez

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>	<u>Amount of the GEF Trust Fund Grant (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works, consultants' services, non-consultant services, training and operating costs, except those covered in Category 2 below.	2,000,000	100%
(2) goods, works, consultants' services, non-consultant services, training and operating costs under Part B of the Project.	2,800,000	100%
(3) Unallocated	200,000	
TOTAL	<hr style="width: 100%;"/> 5,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "non-consultant services" means services for land regularization activities covering areas such as promotion and publicity, geodesy and mapping, field data acquisition and quality and control activities, and legal and cadastral data transfer;

(b) the term "training" means the reasonable and necessary training expenditures, as approved by the Bank on the basis of the Procurement Plan, incurred by the Recipient with respect to: (i) training materials; (ii) rental of training facilities; (iii) transportation expenses of trainees to the place where training is provided and subsistence expenses for such trainees; (iv) scholarships and fellowships for training courses to be provided in the Recipient's territory or abroad; and (v) study tours and internships in the Recipient's territory or abroad; and

(c) the term "operating costs" means the reasonable and necessary operating expenditures, as approved by the Bank on the basis of the Procurement Plan, incurred by MARN and CNR with respect to: (i) remuneration of public sector staff hired under the Project; and (ii) recurrent costs associated with the implementation of the Project, including: (A) operation, leasing and maintenance of: (1) office equipment, vehicles (including fuel, repairs and spare parts); and (2) office facilities under the Project; (B) insurance for equipment and vehicles

procured under the Project (to the extent not covered by the contracts for the purchase of such equipment and vehicles); (C) office utilities associated with the functioning of the PCU; (D) communications expenses required for the implementation of the Project; and (E) office materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of 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 before that date but after July 18, 2005.

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 costing less than \$25,000 equivalent per contract; (b) works costing less than \$25,000 equivalent per contract; (c) services of individual consultants costing less than \$25,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$50,000 equivalent per contract; (e) non-consultants services; (f) training; and (g) operating costs, 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. The Recipient may open and maintain in Dollars a special deposit account in the Recipient's *Banco de Reserva Federal* (the Recipient's Central Bank), on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the GEF Trust Fund Grant Account of amounts to be deposited into the 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 Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the 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 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: (i) the records and accounts for the Special Account; or (ii) 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 the 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 the 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 the 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 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 the 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 the 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 Account.

(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 \$500,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the 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 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 Special Account such amount as the Recipient shall have requested.

 - (b) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposit into the 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 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 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 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 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 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 Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account 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 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 conserve the Recipient's biodiversity by strengthening the Recipient's NPAS and consolidating the Pilot Protected Areas.

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: Strengthening of the NPAS

1. (a) Carrying out of a prioritization study of the Recipient's areas included in the NPAS, including, *inter alia*: (i) an ecological assessment; and (ii) an evaluation of the Recipient's institutions currently participating in the management of the Protected Areas and Mangroves;

(b) development of a ten-year action plan for the management of the NPAS;

(c) implementation of a dissemination strategy to discuss the results of the prioritization study and the action plan mentioned in paragraphs 1 (a) and 1 (b) above with key stakeholders, including representatives of, *inter alia*, MARN, CNR, MAG, MINTUR, ISTU, ISTA, CONCULTURA, CENDEPESCA, NGOs and ADESCOS, through the carrying out of workshops, seminars and roundtable discussions; and

(d) provision of technical assistance by CNR for the delimitation of the Recipient's priority Protected Areas, as defined in the Protected Areas Law.

2. (a) Design of a proposal to: (i) eliminate legislative gaps in order to enable the consolidation of the NPAS, including all Protected Areas and Mangroves; (ii) create a unified Protected Areas information registry linked to the SIRyC; and (iii) develop an alternative conflict resolution mechanism for issues arising from the management of Protected Areas;

(b) drafting of regulations and procedures to grant authorizations for land use to, and to recognize and allow the presence therein of, eligible residents of the Pilot Protected Areas; and

(c) updating of the regulations of the Recipient's Protected Areas Law.

3. Carrying out of a public dissemination campaign to: (a) promote an understanding of the importance of biodiversity conservation; (b) create awareness of the Protected Areas Law and other regulations regarding the conservation and use of Protected Areas; and (c) publicize the results of the Project at the local and national level.

Part B: Consolidation and Management of Pilot Protected Areas

1. Characterization and delimitation of the Pilot Protected Areas, through the collection and analysis of physical, ecological, socioeconomic, cadastral, spatial and legal data.
2. Legalization of the Pilot Protected Areas, including, *inter alia*: (a) demarcation and registration of the Pilot Protected Areas as state property under the jurisdiction of MARN in the SIRyC; (b) issuance of a MARN executive decree legalizing the Pilot Protected Areas; (c) regularization of eligible residents of the Pilot Protected Areas through the granting of authorizations for their land use and the issuance of appropriate legal instruments to recognize and allow their presence in the Pilot Protected Areas; and (d) design and implementation of alternative conflict resolution mechanisms for conflicts related to Pilot Protected Areas consolidation.
3. Development and implementation of participatory management plans in priority portions of the Pilot Protected Areas.

Part C: Project Administration

1. Provision of technical assistance to strengthen MARN's institutional capacity to coordinate and supervise the Project, including the update of MARN's monitoring and evaluation system and the carrying out of studies.
2. Carrying out of audits referred to in Section 4.01 of this Agreement.
3. Carrying out of studies related to consolidation, administration and other aspects of sustainable development of the Recipient's Protected Areas.

* * *

The Project is expected to be completed by January 31, 2011.

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.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$250,000 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 National Competitive Bidding.

2. Shopping. Goods 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.

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. 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.
2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 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.
3. 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.
4. 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, subject to prior approval of the Bank.

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. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 4

Project Monitoring Indicators

- 10 year action plan for the management of NPAS developed.
- The two Pilot Protected Areas consolidated and effectively managed (Tracking tool score of at least 40 for 35,600 ha. in *Bahía de Jiquilisco* and 1,917 ha. in *Lago Guija Complex San Diego–La Barra*).
- Biodiversity benefits established in at least 12,400 ha.:
 - For *Bahía de Jiquilisco* PA at least 11,000 ha. of mangrove or associated humid forest within the core protection zones will have negligible deforestation (less than 1% over 5 years) compared to baseline.
 - For the *Lago Guija Complex San Diego-La Barra* at least 1,400 ha. of dry tropical forest or associated riparian forest will have negligible deforestation (less than 1% over 5 years) compared to baseline.
- Completion of a prioritization study of the NPAS.
- Delimitation of at least 40 Protected Areas and Mangroves.
- Approved updated regulations for implementation of the Protected Areas Law.
- Draft interinstitutional agreements for operating the NPAS.
- At least 10% of national population aware of the Protected Areas Law and regulations.
- Socioeconomic census, environmental information, mapped official boundaries, cadastre and registry for each pilot protected area collected and linked with CNR databases.
- Demarcation of pilot Protected Areas including external boundaries and core zones.
- Executive Decrees to establish the Pilot Protected Areas published.
- Publication of periodic Project reports (FMRs, semestral reports, and annual work plan available).
- Regular performance and impact monitoring reports produced and disseminated in accordance with annual work plan schedule.
- Mid term review report submitted to the Bank.

