June 20, 2016

Edgar Gutierrez Espeleta  
Minister of the Environment and Energy  
President, Fondo Nacional de Financiamiento Forestal  
San José, Costa Rica

Third Grant Agreement for Costa Rica’s Readiness Preparation Proposal  
Readiness Fund of the FCPF  
Grant No. TF0A2303

Dear Sir:

I wish to refer to the Grant Agreement between the Fondo Nacional de Financiamiento Forestal ("Recipient") and the International Bank for Reconstruction and Development ("World Bank"), acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility ("FCPF"), dated June 29, 2009 ("Formulation Grant Agreement"), pursuant to which the World Bank agreed to provide to the Recipient a grant in the amount not to exceed US$200,000 for formulating the Readiness Preparation Proposal ("R-PP") ("R-PP Formulation Installment"). Further, the Recipient and the World Bank entered into a Supplementary Grant Agreement, in the amount of US$3,600,000, dated June 29, 2012, to enable the Recipient to move ahead with preparation for readiness ("Second Installment").

The Participants Committee of the FCPF ("PC") has reviewed the request for an additional funding submitted by the Recipient, in accordance with the process as specified in Resolution PC/12/2012/2. Through its Resolution PC/17/2014/1, the PC decided to allocate additional grant funding to the Recipient in the amount of up to five million United States dollars (US$5,000,000) ("Additional Grant"), to enable it to continue with its preparation for readiness, subject to the terms and conditions set out in said Resolution.

In response to the request for financial assistance made on behalf of the Recipient and the decisions of the PC referred to above, I am pleased to inform you that the World Bank agrees to extend additional grant funding in the amount of five million United States dollars (US$5,000,000). Furthermore, I wish to inform you that the undisbursed balance of the Second Installment in the amount of US$580,000 will be made available to you together with the additional grant funding of US$5,000,000 ("Additional Grant") on the terms and conditions set forth or referred to in this letter agreement ("Third Grant Agreement"), which includes the attached Annex, to assist in the financing of the Additional Readiness Preparation Activities described in the Annex.

This Additional Grant is funded out of the abovementioned FCPF trust fund for which the World Bank receives periodic contributions from the donors to the trust fund. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Third Grant Agreement are limited to the amount of funds
made available to it by the donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Additional Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Third Grant Agreement and to carry out the Additional Readiness Preparation Activities in accordance with the terms and conditions set forth or referred to in this Third Grant Agreement.

Since the execution of the Supplementary Grant Agreement, the Charter Establishing the FCPF ("Charter") has been amended, and the terms and conditions of this Third Grant Agreement are based on the Charter, as so amended. Where there are inconsistencies between the Supplementary Grant Agreements and this Third Grant Agreement including in the use of terms, the provisions in this Third Grant Agreement shall prevail and deemed to have accordingly amended the provisions of the Supplementary Grant Agreement to eliminate any such inconsistency.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Third Grant Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Third Grant Agreement shall become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

(Acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility)

[Signature]

By

J. Humberto Lopez

Country Director, Central America

AGREED:

FONDO NACIONAL DE FINANCIAMIENTO FORESTAL

By

Authorized Representative

Name: Edgar Gutierrez Espeleta

Title: Ministro de Ambiente y Energía

Date: 29/10/2016
Enclosures:


(2) Charter Establishing the Forest Carbon Partnership Facility, dated August 8, 2013.

(3) Disbursement Letter of even date herewith, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.

(4) Guidelines on Preventing and Combating Fraud and Corruption in Project Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised in January 2011.


FCPF Readiness Fund Grant No. TF0A2303ANNEX

Article I
Standard Conditions; Definitions

1.01 Standard Conditions. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated February 15, 2012 ("Standard Conditions"), with the modifications set forth below, constitute an integral part of this Third Grant Agreement:

(a) The following term and definition shall be added to the Appendix to the Standard Conditions as paragraph 18bis to read as follows:

18bis "Additional Readiness Preparation Activities’ means the activities, described in the Third Grant Agreement, for which the Additional Grant is made, as the description of said activities may be amended from time to time by agreement between the Recipient and the World Bank.”

(b) The term “Project” and its definition shall be deleted in their entirety from the Standard Conditions; and all references throughout the Standard Conditions to the term “Project” shall be deemed to refer to the “Additional Readiness Preparation Activities.”

1.02 Definitions. Unless the context requires otherwise, the capitalized terms used in this Third Grant Agreement have the meanings ascribed to them in the Standard Conditions, the Charter, or in this Third Grant Agreement.

(a) “Banco Nacional” means a commercial bank of the Republic of Costa Rica (Costa Rica), established, pursuant to Costa Rica’s constitution, by decree dated October 9, 1914, as amended on November 5, 1936.

(b) “Colegio de Ingenieros Agrónomos” or “CIAgro” means Costa Rica’s college of agricultural engineers, established on April 6, 1991 by Law No. 7221.

(c) “Environmental and Social Management Framework” or “ESMF” means the environmental and social management framework acceptable to the World Bank, which establishes the modalities and procedures to address potential negative environmental and social impacts from the implementation of REDD+ investments and demonstration activities as well as associated mitigation measures through employing best practices; and includes the screening criteria, procedures and institutional responsibilities, all in accordance with the applicable World Bank Safeguard Policies.

(d) “FONAFIFO” means Fondo Nacional de Financiamiento Forestal, Costa Rica’s National Forestry Financing Fund, established through Article 46 of Costa Rica’s Forest Law.

(e) “FONAFIFO – BANCO NACIONAL DE COSTA RICA Fideicomiso 544” or “Fideicomiso 544” mean the trust agreement dated August 24, 1999 entered into between FONAFIFO and Costa Rica’s Banco Nacional for purposes of administering the financial resources of FONAFIFO.
(f) "Forest Law" means *Ley Forestal*, Costa Rica's law No. 7575, dated February 13, 1996, duly published in the Official Gazette on April 16, 1996, as amended to the date of this Agreement.

(g) "National Forestry Development Plan" means Costa Rica's forestry development plan dated July 18, 2007.

(h) "Payment for Environmental Services Program" means Costa Rica's program for environmental services, dated April 16, 1996, and established by Costa Rica's Forest Law.

(i) "REDD+" means reducing emissions from deforestation and forest degradation, conservation of forest carbon stocks, sustainable management of forest, and enhancement of forest carbon stocks.

(j) "Sistema Nacional de Áreas de Conservación" or "SINAC" means Costa Rica's national system of areas under conservation, dated April 23, 1998, and established by Law No. 7788.

(k) "Strategic Environmental and Social Assessment" or "SESA" means the strategic environment and social assessment to be conducted as part of the Readiness process to assess the potential impacts that may arise from future REDD+ activities and/or projects and/or programs and/or policies, all in accordance with the applicable World Bank Safeguard Policies.


**Article II**

**Execution of Additional Readiness Preparation Activities**

2.01. **Objectives and Description.** The objective of the Additional Grant is to assist the Recipient to carry out the Additional Readiness Preparation Activities. The Additional Readiness Preparation Activities consist of the following parts:

(a) **Organization, Consultation and Grievance Redress**

(i) Strengthening the capacity of: (A) the Recipient's REDD+ secretariat to carry out the Additional Readiness preparation Activities through the hiring of a REDD+ strategy coordinator, social, monitoring, legal and communications specialists and administrative support; (B) the Recipient's head and field offices through the hiring of technical specialists in the area of payment for environmental services; (C) the purchase of up to two vehicles; and (D) the financing of the participation of Recipient's staff in international meetings with direct relevance to REDD+.

(ii) Carrying out: (A) consultations, dialogue and capacity building activities with Indigenous Peoples and campesino groups in accordance with a consultation and participation plan acceptable to the World Bank; (B) a dialogue with other relevant key
stakeholders at the national level; (C) communication activities with respect to the Recipient’s REDD+ strategy; and (D) gender mainstreaming activities.

(b) **Development of the REDD+ Strategy**

(i) Strengthening the involvement of the private sector in REDD+ related activities through, *inter alia*: (A) developing and implementing business models with the objective to increase the sustainable production and consumption of wood products in Costa Rica;

(ii) Strengthening the role of protected areas and other public lands in Costa Rica’s territory with respect to REDD+ related activities including, *inter alia*: (A) the updating of management plans for critical protected areas; (B) the carrying out of assessment studies and capacity building on land tenure and protected areas; (C) the strengthening of civil society participation in protected area monitoring efforts; and (D) the assessment of the potential contribution of other public lands to REDD+ efforts at the national level.

(iii) Developing an implementation framework for Costa Rica’s REDD+ strategy including, but not limited to, (A) the establishment of a REDD+ registry and an information system on projects receiving benefits under the Forest Law; (B) the development of a system to monitor the implementation of the REDD+ strategy; and (C) the harmonization of the REDD+ strategy with the National Forestry Development Plan.

(c) **Development of a Reference Level**

(i) Developing a reference level for activities with respect to sustainable forest management and forest degradation through, *inter alia*, developing: (A) a strategic and accounting framework to for the inclusion of aforesaid activities into Costa Rica’s REDD+ strategy; and (B) emission factors for said activities.

(d) **Design of a Monitoring and Verification System**

(i) Strengthening Costa Rica’s forest monitoring system including, *inter alia*: (A) the Recipient’s monitoring system for forest plantations; (B) the establishment of a national land use change monitoring system; (C) SINAC’s forest information systems; and (D) CIAgro’s verification capacity.

2.02. **Execution Generally.** The Recipient declares its commitment to the objectives of the Additional Readiness Preparation Activities. To this end, the Recipient shall carry out the Additional Readiness Preparation Activities in accordance with the provisions of (a) Article II of the Standard Conditions, (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January, 2011 (“Anti-Corruption Guidelines”) and (c) this Article II.

2.03 **Institutional and Other Arrangements.** Without limitation upon the provision of paragraph 2.02 above, the Recipient shall administer the Additional Grant proceeds through Fideicomiso 544.

2.04. **Safeguards.**

(a) all (i) terms of reference for any technical assistance or studies carried out under
the Additional Readiness Preparation Activities and (ii) safeguard instruments prepared on the basis of the SESA and ESMF under the Additional Readiness Preparation Activities pursuant to Section 2.01 of this Third Grant Agreement are consistent with, and pay due attention to, the World Bank's environmental and social safeguards policies, as well as the Recipient's own laws relating to the environment and social aspects;

(b) in drafting or amending any laws or regulations under the Additional Readiness Preparation Activities, due attention will be given to said policies and laws; and

(c) Additional Readiness Preparation Activities do not include the implementation of REDD+ programs on the ground.

2.05. **Completion Report.** The Recipient shall prepare and furnish to the World Bank not later than six months after the Closing Date, a Completion Report in accordance with the provision of Section 2.06(b) (ii) of the Standard Conditions.

2.06. **Financial Management.**

(a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Additional Readiness Preparation Activities are prepared and furnished to the World Bank not later than forty five days (45) after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. **Procurement.**

(a) General

(i) **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for the Additional Grant and to be financed out of the proceeds of the Additional Grant shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, "Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers," dated January 2011 and revised in July 2014 and with the provisions of this Section.

(ii) **Consultants' Services.** All consultants' services required for the Additional Grant and to be financed out of the proceeds of the Additional Grant shall be procured in accordance with the requirements set forth or referred to in Sections I
and IV of the Consultant Guidelines “Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers,” dated January 2011 and revised in July 2014, and with the provisions of this Section.

(b) Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (i) National Competitive Bidding; (ii) Shopping; (iii) Direct Contracting.

(d) Particular Methods of Procurement of Consultants’ Services

(i) Quality- and Cost-based Selection. Except as otherwise provided in paragraph (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

(ii) Other Methods of Procurement of Consultants’ Services. The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants’ Qualifications; (e) Single-source Selection of consulting firms; (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the Prior Review by the World Bank. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Additional Grant in accordance with the provisions of (a) Article III of the Standard Conditions, (b) this Section, and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures consisting of goods, non-consulting services, consultants’ services, Training and Workshops, and Operating Costs inclusive of Taxes.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (in US$ million)</th>
<th>Percentage of Expenditures to be Financed (incl. Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, consulting services, non-consulting services, trainings and workshops, and operating costs</td>
<td>5,580,000.0</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>5,580,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purpose of Section 3.01, (i) the term “Workshops and Training” means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Additional Readiness Preparation Activities, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training courses and workshop preparation and implementation (but excluding goods and consultant’s services); and (ii) the term “Operating Costs” means the reasonable costs, as shall have been approved by the World Bank, for the incremental expenses incurred on account of the implementation of the Additional Readiness Preparation Activities, consisting of vehicle operation and maintenance, communication and insurance costs, banking charges, rental expenses, office (and office equipment) maintenance, utilities, document duplication/printing, consumables, travel cost and per diem for Additional Readiness Preparation Activities staff for travel linked to the implementation of the Additional Readiness Preparation Activities, and salaries of contractual staff for the Additional Readiness Preparation Activities (but excluding consultants’ services and salaries of officials of the Recipient’s civil service).

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Third Grant Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Third Grant Agreement by the Recipient except that withdrawals up to an aggregate amount not to exceed $500,000 equivalent may be made for payments made prior to this date but on or after June 22, 2015, for Eligible Expenditures.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is March 29, 2019.

**Article IV**

**Additional Remedies**

4.01 **Additional Event of Suspension.** The Additional Events of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of:

(a) the Forest Law, as amended to date, shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the World Bank, materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement; and

(b) *Fideicomiso* 544 shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the World Bank, materially or adversely the ability of the Recipient
and/or Banco Nacional to perform any of its obligations with respect to this Third Grant Agreement.

**Article V**

**Recipient’s Representative; Addresses**

5.01. *Recipient’s Representative.* The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of the Environment and Energy of Costa Rica.

5.02. *Recipient’s Address.* The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Fondo Nacional de Financiamiento Forestal  
San Vicente de Moravia, de Plaza Lincoln, 200 metros Oeste, 100 metros al Sur y 200 metros al Este, contiguo a la Sinfonía Nacional, Edificio IFAM  
San José, Costa Rica

Facsimile: (506) 2235-4796

5.03. *World Bank’s Address.* The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America  
Facsimile: 1-202-477-6391