Mr. Juan Pablo Lira Bianchi  
Executive Director  
Agencia de Cooperación Internacional de Chile  
Teatinos 180, Piso 8  
Santiago, Chile

Re: Second Grant Agreement for Chile’s Readiness Preparation Support Project  
Readiness Fund of the Forest Carbon Partnership Facility  
Supplementary Grant No. TF0A4915

Dear Mr. Lira:

We refer to the Grant Agreement between the Agencia de Cooperación Internacional de Chile (“AGCI” or “Recipient”) and the International Bank for Reconstruction and Development (“World Bank”), acting as a Trustee of the Readiness Fund of the Forest Carbon Partnership Facility (“FCPF”) dated December 13, 2013 (“Readiness Preparation Grant Agreement”), pursuant to which the World Bank agreed to provide the Recipient a preparation installment grant in the amount not to exceed three million eight hundred thousand United States Dollars (US$3,800,000) to enable the Recipient to move ahead with preparation for readiness, and strengthen national feedback and grievance redress mechanisms, subject to terms and conditions set out in FCPF Participants Committee (“PC”) Resolutions PC/14/2013/3 and PC/Electronic/2012/1.

In light of the Recipient’s mid-term progress report discussed during the PC’s November 2015 meeting highlighting the significant progress of readiness activities the Recipient has achieved thus far, and recognizing a financial gap to fully implement its readiness preparation, the PC decided through Resolution PC/20/2015/1 to allocate additional funding to the Recipient in an amount not to exceed five million United States Dollars (US$5,000,000) (“Additional Grant”), on the terms and conditions set forth in the said Resolution and referred to in this Supplementary Grant Agreement (“Agreement”) which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”).

This Additional Grant is funded out of the FCPF trust fund for which the World Bank receives periodic contributions from the donors. 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 Supplementary 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 Supplementary 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 Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Supplementary Grant Agreement.

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 Supplementary Grant Agreement, and returning it to the World Bank.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Alberto Rodriguez
Country Director
Bolivia, Chile, Ecuador, Peru and Venezuela
Latin America and the Caribbean Region

AGREED:

AGENCIA DE COOPERACIÓN INTERNACIONAL DE CHILE

By:

Name: Juan Pablo Lira B.
Title: DIRECTOR AGCI
Date: 18/9/2017
Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Investment Project Financing, dated February 2017

(3) 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 and as of July 1, 2016

(4) World Bank Procurement Regulations for Borrowers under Investment Project Financing, dated July 1, 2016
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 in Section I of the Appendix to this Agreement, constitute an integral part of this Agreement.

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

18 bis ""Readiness Preparation Activities" means the activities, described in the Grant Agreement, for which the 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 "Readiness Preparation Activities."

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

(a) "AGCI" means Agencia de Cooperación Internacional de Chile, the Recipient’s agency for international cooperation within its Ministry of Foreign Affairs, established through the Recipient’s Law No. 18.989 dated July 13, 1990 and published on July 19, 1990, as said law has been amended to the date of this Agreement.


(c) "CONAF" means Corporación Nacional Forestal, the National Forestry Corporation, a private legal entity registered at the city of Santiago de Chile, and under the administrative jurisdiction of Ministerio de Agricultura, the Recipient’s Ministry of Agriculture.

(d) "ENCCRV" means the Recipient’s National Strategy for Climate Change and Native Vegetation.
(e) "ESMF" means Environmental and Social Management Framework which defines the environmental and social assessment procedures required to assess and mitigate environmental and social consequences of proposed Readiness Preparation Activities, completed under TF016024, all in accordance with applicable World Bank Safeguards Policies.

(f) "Indigenous Peoples" means indigenous peoples as defined in the World Bank’s operational policy 4.10.

(g) "INFOR methodology" means the methodology developed by the Forestry Institute of Chile (INFOR; http://www.infor.gob.cl/) for measuring and monitoring changes in carbon content of forests in Chile.

(h) "Operational Manual" means the manual referred to in Section 2.03(a)(i)(C) of Annex I to this Agreement, as the same may be updated from time to time with agreement of the World Bank.

(i) "Procurement Plan" means procurement plan for the Project prepared by the Recipient, dated May 19, 2017 and provided for under Section IV of the Procurement Regulations, which shall include, inter alia, the selection methods to be applied, including the national procurement procedures established in ChileCompra, as such Procurement Plan may be updated from time to time in agreement with the Bank.


(k) "Subsidiary Agreement" means the agreement between the Recipient and CONAF, referred to in Section 2.03 of this Agreement.

(l) "World Bank’s Safeguards Policies" means the World Bank’s operational policies and procedures set forth in the World Bank’s operational manual under OP/BP 4.01, 4.04, 4.10, 4.12, 4.36, 4.37, 7.50 AND 7.60 published at www.worldbank.org/opmanual.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to assist the Recipient in carrying out its Readiness Preparation activities. The Project consists of the following parts:
Part 1: Readiness organization and consultation

(a) National readiness management arrangements
   (i) Providing support towards the establishment of management arrangements for the implementation of the ENCCRV; and
   (ii) Developing training activities to strengthen CONAF staff's technical knowledge on forests and climate change.

(b) Information sharing and early dialogue with key stakeholder groups
   (i) Providing support towards information sharing and dissemination activities related to the ENCCRV, including *inter alia*:
      (A) developing an ENCCRV Environmental Education Program focusing on forests, environmental services and climate change issues;
      (B) carrying out communication activities of the ENCCRV; and
      (C) facilitating national and regional dissemination workshops.

Part 2: REDD+ strategy preparation

(a) REDD+ Strategy options
   (i) Developing best practice operational manuals for key ENCCRV-related actions and relevant safeguard procedures; and
   (ii) Carrying out technical assistance activities through seven (7) Regional Technical Units that will support CONAF’s local offices on ENCCRV-related actions.

(b) REDD+ implementation framework
   (i) Providing support towards the development of an emission reductions transaction registry to avoid double counting of emission reductions under the ENCCRV;
   (ii) Developing an impact evaluation strategy for the ENCCRV; and
   (iii) Carrying out knowledge sharing activities with:
      (A) other countries to incorporate relevant lessons and design features in the ENCCRV; and
      (B) regional partner agencies to showcase experiences related to the ENCCRV.

(c) Social and environmental impacts
   (i) Providing support towards continuity of the ESMF work including the development of relevant Safeguards Plans and monitoring arrangements for ENCCRV-related actions.
Part 3: Development of a national forest reference emission level and monitoring systems for REDD+

(a) National forest reference emission level

(i) Providing support towards developing a complete forest reference emission level, including for the sustainable management of forests at the national level;
(ii) Assisting in the analysis of alternative methodologies to estimate changes in carbon stocks for forests in regions with significant data gaps that limit the application of the INFOR methodology; and
(iii) Providing recommendations on technology tools for use in the analysis and processing of satellite images.

(b) National monitoring systems for forests and safeguards

(i) Providing support towards: improving and adapting the National Forest Monitoring System (NFMS) to align with international REDD+ reporting requirements;
(ii) Developing spatially explicit baselines for monitoring of co-benefits under the ENCCRV; and
(iii) Reporting of safeguards for ENCCRV-related actions.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project 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 and as of July 1, 2016 (“Anti-Corruption Guidelines”);

(c) this Article II; and

(d) the agreement dated the same date as this Agreement between the World Bank and the Project Implementing Entity, as such agreement may be amended from time to time (“Subsidiary Agreement”).
2.03. **Institutional and Other Arrangements.**

**Operations Manual**

(a) The Recipient shall carry out the Project in accordance with a manual (the “Operations Manual”) updated for this Project, satisfactory to the World Bank, setting forth, *inter alia*:

(i) a detailed description of the Project activities;

(ii) the administrative, financial, accounting, auditing, procurement and disbursement procedures for the implementation of the Project, including the relevant standard documents and the Procurement Plan; and

(iii) the plan for the monitoring, evaluation and supervision of the Project, including the performance indicators.

(b) Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Project Operations Manual, or any provision thereof. In case of any conflict between the terms of the Operations Manual and those of this Agreement, the terms of this Agreement shall prevail.

**Subsidiary Agreement**

(a) To facilitate the carrying out of the Readiness Preparation Activities, the Recipient shall make the proceeds of the Grant available to CONAF under a subsidiary agreement (“Subsidiary Agreement”) between the Recipient and CONAF, under terms and conditions approved by the World Bank, which shall include, *inter alia*:

(i) The Recipient’s obligation to:

   (A) manage the Designated Account and a local currency account from which advances of Readiness Preparation Grant and Supplementary Grant (collectively “Grant”) funds to CONAF will be made by the Recipient to finance local expenditures;

   (B) prepare and submit requests for withdrawal of Grant funds;

   (C) review documentation provided by CONAF to record Readiness Preparation Activities expenditures at an aggregate level; and

   (D) suspend or terminate the right of CONAF to use the proceeds of the Grant, or obtain refund of all or any part of the amount of the Grant then withdrawn, upon CONAF’s failure to perform any of their obligations under the Subsidiary Agreement.

(ii) The obligation of CONAF to:

   (A) carry out the Readiness Preparation Activities in accordance with the Environmental and Social Management Framework, the Indigenous Peoples Policy Framework and the Process Framework and Resettlement Policy Framework, and the provisions of the Anti-Corruption Guidelines;
procure the goods, consultants’ services and non-consulting services to be financed out of the proceeds of the Grant in accordance with the provisions of this Agreement;

(C) maintain policies and procedures adequate to enable the Recipient to monitor and evaluate the progress of the Readiness Preparation Activities and the achievement of their objectives;

(D) maintain a financial management system and prepare financial reports in accordance with consistently applied accounting standards acceptable to the World Bank, both in a manner adequate to reflect the operations, resources received from the Recipient, and expenditures related to the Readiness Preparation Activities;

(E) enable the Recipient and the World Bank to inspect the Readiness Preparation Activities, their operation and relevant records and documents;

(F) prepare and furnish to the Recipient and the World Bank all such information as the Recipient or the World Bank shall reasonably request relating to the foregoing; and

(G) carry out the Readiness Preparation Activities in accordance with the provisions of the Anti-Corruption Guidelines.

(b) The Recipient shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, terminate, waive or fail to enforce the Subsidiary Agreement or any of its provisions.

2.04 Safeguards. The Recipient shall cause the implementing entity to ensure that:

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

(b) in drafting any laws or regulations under the Readiness Preparation Activities, due attention shall be given to said Safeguard Policies and laws.

2.05 Project Monitoring, Reporting and Evaluation. The Recipient shall prepare and furnish to the World Bank not later than six (6) 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 Project are prepared and furnished to the World Bank not later than forty-five (45) days 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 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 (6) months after the end of such period.

2.07. Procurement.

(a) All goods, non-consulting services and consulting services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the “World Bank Procurement Regulations for Borrowers under Investment Project Financing” dated July 1, 2016 (“Procurement Regulations”), and the provisions of the Recipient’s procurement plan for the Project (“Procurement Plan”) dated April 06, 2017, provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) 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 as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consulting services, workshops and training, and operating costs</td>
<td>5,000,000</td>
<td>100%</td>
</tr>
</tbody>
</table>

For the purpose of Section 3.01: (i) the term “Workshops and Training” means the costs associated with training and workshop participation of personnel involved in the implementation of the Readiness Preparation Activities including 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; and (ii) the term “Operating Costs” means the operating costs incurred on account of the implementation of the Readiness Preparation Activities including office supplies and consumables, utilities, communications, mass media and printing services, vehicle rental, operation and maintenance, charges for the opening and operation of bank accounts required for the Readiness Preparation Activities, and travel, lodging and per diems, but excluding salaries of officials of the Recipient’s civil service.

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement.

3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2019.

Article IV
Additional Remedies

4.01. Additional Events of Suspension. The Additional Events of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following:

(a) The AGCI Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the World Bank, the ability of the Recipient and/or CONAF to comply with any of their respective obligations under this Supplementary Agreement or the Subsidiary Agreement, as the case may be; and
(b) CONAF shall have failed to comply with any of their pertinent obligations under the Subsidiary Agreement.

**Article V**

**Effectiveness; Termination**

5.01. This Supplementary Grant Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished that the condition that the Subsidiary Agreement referred to in Section 2.03 of this Supplementary Grant Agreement has been executed on behalf of the Recipient and CONAF has been satisfied.

5.02. As part of the evidence to be furnished pursuant to Section 5.01 of this Supplementary Grant Agreement, there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Recipient, showing the following matters:

(a) on behalf of the Recipient, that this Supplementary Grant Agreement has been duly authorized or ratified by it, and executed and delivered on its behalf, and is legally binding upon it in accordance with its terms; and

(b) the Subsidiary Agreement referred to in Section 2.03 (c) of this Supplementary Grant Agreement has been duly authorized or ratified by the Recipient and CONAF and is legally binding upon each such party in accordance with its terms.

5.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.04. **Termination for Failure to Become Effective.** This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

**Article VI**

**Recipient’s Representative; Addresses**

6.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Executive Director.
6.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Agencia de Cooperación Internacional de Chile  
Teatinos 180, piso 8  
Santiago  
Chile  

Facsimile:  
+56(2)827-5756

6.03. **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/  
International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America  

Telex:  
248423 (MCI) or  
64145 (MCI)  
Facsimile:  
1-202-477-6391