

June 29, 2009

Jorge Rodriguez Quirós
President
Fondo Nacional de Financiamiento Forestal
San Jose, Costa Rica

**Re: Preparation Grant Agreement for Readiness Plan
Readiness Fund of the FCPF
Grant No. TF094486**

Dear Mr. Rodriguez:

I wish to refer to Resolution PC2008-2 of the Participants Committee of the Forest Carbon Partnership Facility ("FCPF") regarding Selection of REDD Country Participants ("Resolution PC2008-2"). REDD refers to reducing emissions from deforestation and forest degradation. Resolution PC2008-2 provides that:

- (i) Subject to the availability of funding, a REDD Country Participant may receive grants up to three million six hundred thousand United States Dollars (US\$3,600,000) ("Total Allocation") for preparing and implementing a Readiness Plan as defined in the Charter Establishing the FCPF; and
- (ii) Subject to terms and conditions set forth in Attachment II to Resolution PC2008-3 of the Participants Committee regarding Grant Allocation for REDD Country Participants, the Total Allocation may be made available in three (3) installments, with the first installment in the amount of US\$200,000 ("First Installment") available to the Eligible REDD Country upon its selection as a Participant in the FCPF.

The *Fondo Nacional de Financiamiento Forestal* ("Recipient") was selected as a REDD Country Participant and wishes to receive the First Installment of the Total Allocation to prepare its Readiness Plan. In response to the request for financial assistance made on behalf of the Recipient, I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility, agrees to extend to the Recipient a grant in an amount not to exceed two hundred thousand United States Dollars (US\$200,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project"). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds 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 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 Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this 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)

By /s/ Laura Frigenti
Country Director for Costa Rica
Latin America and the Caribbean Region

AGREED:

FONDO NACIONAL DE FINANCIAMIENTO FORESTAL

By: /s/ Jorge Rodríguez Quirós
Authorized Representative

Name: Jorge Rodríguez Quirós

Title: President

Date: July 9, 2009

Enclosures: (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 1, 2008; and (2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.

FCPF Readiness Fund Grant No. TF094486

ANNEX

**Article I
Standard Conditions; Definitions**

1.01. **Standard Conditions.** (a) The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 1, 2008 (“Standard Conditions”), with the modification set forth in paragraph (b) below, constitute an integral part of this Agreement.

(b) The following term shall be inserted as paragraph 6 (bis) in the Appendix to the Standard Conditions:

“6 (bis) “Charter” means the Charter Establishing the Forest Carbon Partnership Facility, as may be amended from time to time;”

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, in the Charter, or in this Agreement, and the following additional terms have the following meanings:

(a) “FONAFIFO” means *Fondo Nacional de Financiamiento Forestal*, the Republic of Costa Rica’s (Costa Rica) National Forestry Financing Fund established through Article 46 of Costa Rica’s Forest Law No. 7575.

(b) “Law N° 7575” means *Ley Forestal*, Costa Rica’s forest law enacted by the Legislative Assembly of Costa Rica on February 13, 1996 and published in the Official Gazette N° 72 on April 16, 1996, as amended to the date of this Agreement.

**Article II
Project Execution**

2.01. **Project Objectives and Description.** The objective of the Project is to assist the Recipient in developing a Readiness Plan (R-Plan), on the basis of the Readiness Plan Idea Note following the FCPF template for the Readiness Plan. The Project consists of the following parts:

- (a) Assessment of land use and forest policies and governance in the forestry sector.
- (b) Setting up of a multi-stakeholder national REDD working group responsible for following up on REDD activities.
- (c) Preparation of a consultation and outreach plan to be executed during the implementation phase of the Readiness Plan, and conducting consultations among key stakeholders.
- (d) Preparation of the terms of reference for the development of the national REDD strategy.
- (e) Preparation of the terms of reference for the design of a national REDD implementation framework.

(f) Preparation of a social and environmental impact analysis methodology and the terms of reference for carrying out said analysis.

(g) Assessment of the investment and capacity building needs for the implementation of the national REDD strategy.

(h) Preparation of the terms of reference for the development of the reference scenario for emissions from deforestation and forest degradation.

(i) Preparation of the terms of reference for establishing the monitoring, reporting and verification system for changes in forest cover and changes in carbon stocks at the national level.

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 (c) this Article II.

2.04. ***Project Report and Completion Report.*** The Recipient shall prepare the Project Report and Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of performance indicators agreed with the World Bank. The Project Report shall cover the period of one calendar quarter and shall be furnished to the World Bank not later than one month after the end of the period covered by such report. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.05. ***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 as part of the Project Report not later than one month after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.06. ***Procurement***

(a) General. All goods and 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:

(i) Section I (excluding paragraph 1.16) of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 as

revised in October 2006 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 as revised in October 2006 (“Consultant Guidelines”), in the case of consultants’ services.

(b) Definitions. The capitalized terms used in the following paragraphs of 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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods

Except as the World Bank may otherwise agree, goods shall be procured under contracts awarded on the basis of Shopping.

(d) Particular Methods of Procurement of Consultants’ Services

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

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which the World Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Selection Based on the Consultants’ Qualifications; (B) Selection of Individual Consultants; and (C) Sole Source Procedures for the Selection of Individual Consultants, subject to prior approval of the Bank.

(e) Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise specify by notice to the Recipient, each contract for consultants’ services provided by a firm estimated to cost the equivalent of \$50,000 or more shall be subject to 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 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 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:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (Inclusive of Taxes)
(1) Consultants’ Services	115,000	100%
(2) Training and Workshops	49,000	100%
(3) Goods	32,000	100%
(4) Operating Costs	4,000	100%
TOTAL AMOUNT	200,000	

For the purpose of this Section the term:

(a) “Training and Workshops” means the costs associated with training and workshop participation of personnel involved in the implementation of the Project 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

(b) “Operating Costs” means the operating costs incurred on account of the implementation of the Project including office supplies and consumables, utilities, communications, mass media and printing services, rental charges, charges for the opening and operation of bank accounts required for the Project, salaries of support contractual staff for the Project other than consultants, 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 countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is July 31, 2010.

Article IV Additional Remedies

4.01 **Additional Event of Suspension.** The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the Default in Implementation set forth in Section 6.5 (a) (i) of the Charter.

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 its President.

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

Facsimile:
(506) 2 257-9695

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

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