

December 24, 2013

His Excellency  
Carlos Enrique Cáceres  
Minister  
Ministry of Finance  
Boulevard de los Héroes #1231  
San Salvador, El Salvador

**Agreement for  
El Salvador's Readiness Preparation Proposal  
Readiness Fund of the FCPF - Grant No. TF 099529**

Excellency:

I wish to refer to the Grant Agreement between the Republic of El Salvador ("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 July 19, 2011 ("Readiness 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").

The Participants Committee of the FCPF ("PC") has reviewed the R-PP submitted by the Recipient and acknowledged the extensive efforts made by the Recipient and the high quality of the R-PP. Accordingly, the PC, through its decision PC/13/2012/1 allocated grant funding to the Recipient in the amount of up to three million six hundred thousand Dollars (US\$3,600,000) ("Second Installment"), to enable it to move ahead with preparation for readiness, subject to the terms and conditions set out in said Resolution. The funds of up to two hundred thousand Dollars (US\$200,000) out of this US\$3,600,000 shall be used for the purpose of strengthening the Recipient's national feedback and grievance redress mechanism, subject to the terms and conditions set out in Resolution PC/Electronic/2012/1.

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 the Second Installment in the amount of three million six hundred thousand Dollars (US\$3,600,000) 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 Readiness Preparation Activities described in the Annex. The Second Installment in the amount of US\$3,600,000 is in addition to the R-PP Formulation Installment.

This Second Installment 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 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 Second Installment 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 Readiness Preparation Activities in accordance with the terms and conditions set forth or referred to in this Agreement.

Since the execution of the Readiness Grant Agreement, the Charter Establishing the FCPF ("Charter") has been amended, and the terms and conditions of this Agreement are based on the Charter, as so amended. Where there are inconsistencies between the Readiness Grant Agreement and this Agreement including in the use of terms, the provisions in this Agreement shall prevail and deemed to have accordingly amended the provisions of the Readiness 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 Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement for the Second Installment 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)

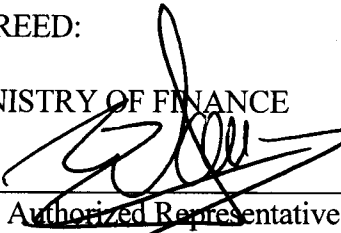
By   
C. Felipe Jaramillo  
Director

Central America  
Latin America and the Caribbean Region

AGREED:

MINISTRY OF FINANCE

By



Authorized Representative

Name

Carlos Enrique Cáceres Chávez  
MINISTRO DE HACIENDA

Title

Date:

23 ENE 2014

Enclosures:

- (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated February 15, 2012.
- (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.
- (5) Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011.
- (6) Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011.

**FCPF Readiness Fund Grant No. TF 099529  
ANNEX**

**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 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:

18bis “Readiness Preparation Activities” means the activities, described in the Agreement, for which the Second Installment 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, the Charter, or in this Agreement.

- (a) “CNR” means the *Centro Nacional de Registros*, the Recipient’s National Center for Registries, or any successor or successors thereto, acceptable to the World Bank.
- (b) “ESMF” means the environmental and social management framework acceptable to the World Bank, which will provide guidance regarding the management of environmental and social impacts during the future implementation of the Recipient’s REDD+ strategy and includes the screening criteria, procedures and institutional responsibilities for the World Bank’s Safeguard Policies applicable to subsequent REDD+ investments.
- (c) “IPCC” means the Intergovernmental Panel on Climate Change of the United Nations.
- (d) “MAG” means the *Ministerio de Agricultura y Ganadería*, the Recipient’s Ministry of Agriculture and Livestock, or any successor or successors thereto, acceptable to the World Bank.
- (e) “MARN” means the *Ministerio de Medio Ambiente y Recursos Naturales*, the Recipient’s Ministry of the Environment and Natural Resources, or any successor or successors thereto, acceptable to the World Bank.

- (f) “REDD+” means reducing emissions from deforestation and forest degradation, conservation of forest carbon stocks, sustainable management of forest, and enhancement of forest carbon stocks.
- (g) “SESA” means the strategic environment and social assessment to be conducted as part of the Readiness process to assess the potential impacts of the potential national REDD+ programs and policies and enhance the participation and consultation for the preparation of the national REDD+ framework.
- (h) “SESA Work Plan” means the work plan for SESA dated October 7, 2013, as amended from time to time, in form and substance acceptable to the World Bank.
- (i) “World Bank’s Safeguard Policies” means the World Bank’s operational policies and procedures set forth in the World Bank’s operational manual under OP/BPs 4.01, 4.04, 4.09, 4.10, 4.12, 4.36, 4.37, 7.50 and 7.60 published at: [www.worldbank.org/opmanual](http://www.worldbank.org/opmanual).

## **Article II**

### **Execution of Readiness Preparation Activities**

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

(a) Organization and Consultation, and Grievance Redress

- (i) Establishing and supporting an inter-agency committee on climate change;
- (ii) Establishing an inter-ministerial consultative body on climate change and REDD+ to carry out consultations, studies, workshops and meetings;
- (iii) Designing and carrying out of a communications and information dissemination strategy for REDD+;
- (iv) Designing and carrying out of a participation and consultation plan for REDD+, including culturally appropriate engagement with indigenous peoples; and
- (v) Assessing existing feedback and grievance redress mechanisms and, if necessary, bolstering and/or establishing said mechanisms to meet the needs of people who may be affected by REDD+.

(b) Development of a REDD+ Strategy

- (i) Carrying out of an assessment of the causes of deforestation and forest degradation, including the underlying legal and institutional structures contributing thereto;
- (ii) Preparing studies to inform the design of REDD+ strategy options, including the design of relevant policies and programs;
- (iii) Designing a REDD+ strategy implementation framework, including: (A) an analysis of the existing legal framework and its contributions to deforestation and forest degradation; (B) the design of inter-sectoral policy harmonization plan; and (C) an analysis of the requirements in the areas of transparency, fiduciary, environmental and social capacity of an entity responsible for managing RED+ funds at the national level; and

(iv) (A) Carrying out of SESA; (B) preparation of ESMF, including, if applicable, an indigenous peoples framework to ensure, *inter alia*, adequate participation of indigenous peoples in future REDD+ activities (“Indigenous Peoples Framework”), a process framework to address, *inter alia*, potential adverse impacts on livelihoods as a result of REDD+ activities leading to restricted access to natural resources in legally designated parks and protected areas (“Process Framework”); and preparation of a resettlement policy framework to ensure, *inter alia*, screening of REDD+ activities for potential involuntary resettlement in accordance with World Bank’s Safeguard Policies (“Resettlement Policy Framework”); and (C) preparation of studies, including but not limited to, the areas of indigenous peoples rights, land tenure and other rights in forested areas, carbon ownership and benefit-sharing arrangements, and gender.

(c) Development of a Forest Carbon Emission Reference Level

- (i) Defining the term “forest” in the context of REDD+ in legal terms;
- (ii) Developing (A) a time series of land use change based on existing international standards; and (B) business as usual scenarios based on econometric and spatial modeling; and
- (iii) Strengthening the capacity of, *inter alia*, MARN, MAG and CNR on IPCC methodologies for the compilation of greenhouse gas inventories for the land use and land use change in the forestry sector.

(d) Design of National Forest Monitoring Systems

- (i) Developing national forest monitoring systems to measure, report and verify greenhouse gas emission reductions through: (A) establishing the design of the system, including monitoring and measuring specifications for Readiness Preparation Activities, and the necessary institutional arrangements therefor; (B) strengthening the capacity of, *inter alia*, MARN and MAG to develop said monitoring systems; (C) Developing and piloting community based carbon monitoring methodologies; and (D) Designing a research program on forest monitoring.
- (ii) Designing a national information system to report on co-benefits, such as improving the resilience of local communities’ livelihoods to climate change, ecosystem conservation and restoration, and biodiversity protection , other impacts related to the implementation of the REDD+ strategy, environmental and social policies and guidelines, safeguards, and governance related matters by developing (A) monitoring protocols to assess environmental impacts of the REDD+ strategy on biodiversity, soil and water, and socioeconomic impacts of the REDD+ strategy; and (B) developing and piloting community based non-carbon monitoring methodologies.

(e) Design of a REDD+ Monitoring and Evaluation Framework

- (i) Establishing a technical and administrative unit with the objective of (A) coordinating and carrying out of Readiness Preparation Activities under Sections 2.01 (a) – (d) above; and (B) designing a monitoring and evaluation framework for Readiness Preparation Activities.

2.02. **Execution Generally.** The Recipient declares its commitment to the objectives of the Readiness Preparation Activities. To this end, the Recipient shall carry out the Readiness Preparation Activities through MARN 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, through MARN, shall:

- (a) Carry out the Readiness Preparation Activities in accordance with the provisions of a manual (“Operational Manual”), acceptable to the World Bank, which manual shall include, *inter alia*: (i) the detailed description of the Readiness Preparation Activities; (ii) the administrative, accounting, auditing, reporting, financial, and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto; and (iii) the procedures for the monitoring, evaluation and supervision of the Readiness Preparation Activities; and (iv) the SESA Work Plan.
- (b) Amend the Operational Manual from time to time only in consultation with, and after approval of, the World Bank. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.
- (c) Establish and maintain, no later than forty five (45) days after this Agreement has become effective, a Readiness Preparation Activities implementation unit (“RPAIU”) with the necessary technical and fiduciary capacity, all acceptable to the World Bank.
- (d) Shall hire, no later than forty five (45) days after this Agreement has become effective, a Financial Specialist for the RPAIU with adequate experience and skills, and under terms of reference acceptable to the Bank.
- (e) Prepare and submit to the Bank, for its no objection, no later than three (3) months after this Agreement has become effective, the terms of reference for hiring an auditor to comply with the obligations set forth in Article 2.06 (c) of this Agreement.

2.04 ***Safeguards.***

The Recipient, through MARN, shall ensure that:

- (a) all terms of reference for any technical assistance or studies carried out under the Readiness Preparation Activities and frameworks prepared on the basis of the SESA under the Readiness Preparation Activities pursuant to Section 2.01 of this Agreement are consistent with the World Bank’s Safeguard Policies, as well as the Recipient’s own laws relating to the environment and social aspects; and
- (b) any laws or regulations drafted under the Readiness Preparation Activities, shall be consistent with said Safeguard Policies and laws.

2.05. ***Mid-term Progress Report and Completion Report.*** The Recipient, through MARN, shall, not later than July 31, 2015, prepare and furnish to the World Bank a mid-term progress report on the Readiness Preparation Activities in accordance with terms of reference acceptable to the World Bank, including the provisions of Section 6.3(b) of the Charter and Resolutions PC/7/2010/3 and PC/12/2012/2. The Recipient shall also 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 Readiness Preparation Activities 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 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 (6) months after the end of such period.

#### 2.07. *Procurement*

All goods, works, non-consulting services, and/or consulting services required for the Readiness Preparation Activities and to be financed, fully or partially, out of the proceeds of the Second Installment shall be procured in accordance with the requirements set forth or referred to in the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers,” dated January 2011 (“Procurement Guidelines”), and the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers,” dated January 2011 (“Consultant Guidelines”).

2.08. Any contract for Eligible Expenditures to be financed in full or in part out of the proceeds of the Second Installment shall be included in the procurement plan prepared by the Recipient and approved by the Bank in accordance with the Procurement Guidelines and the Consultant Guidelines, prior to initiating the procurement process for any such contract.

### **Article III Withdrawal of Second Installment Proceeds**

3.01. *Eligible Expenditures.* The Recipient may withdraw the proceeds of the Second Installment 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 Taxes.

For the purpose of this 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 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 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* related to Readiness Preparation Activities.

3.02. ***Withdrawal Period.*** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is January 31, 2017.

**Article IV  
Recipient’s Representative; Addresses**

4.01. ***Recipient’s Representative.*** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

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

Boulevard de los Héroes #1231  
San Salvador, El Salvador  
San Salvador, El Salvador

Facsimile:      Email:

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4.03. ***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