

CONFORMED COPY

GRANT NUMBER TF096758

**GLOBAL ENVIRONMENT FACILITY
GRANT AGREEMENT**

**(Conservation of Biodiversity and Sustainable Land Management in the
Atlantic Forest of Eastern Paraguay Project)**

Between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

and

ITAIPIÚ BINACIONAL

Dated February 24, 2011

GRANT NUMBER TF096758

**GLOBAL ENVIRONMENT FACILITY
GRANT AGREEMENT**

AGREEMENT dated February 24, 2011, entered into between: INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“World Bank”), acting as an implementing agency of the Global Environment Facility (“GEF”) and as trustee of the GEF Trust Fund (the GEF Trust Fund); and ITAIPÚ BINACIONAL (the Recipient).

WHEREAS:

- (a) by letters No. 517/06 and No. 245/09 dated July 31, 2006 and August 6, 2009 to the GEF Regional Coordinator at the World Bank, SEAM, acting as the GEF focal point in Paraguay, has endorsed the Recipient as a direct recipient of the Grant funds, and ratified said endorsement, respectively;
- (b) the Recipient is an international bi-national legal entity duly established pursuant to the terms of the Itaipú Treaty entered into between the Republic of Paraguay (the Member Country) and the Federative Republic of Brazil dated April 26, 1973, and represents that it has the necessary legal capacity and powers to enter into this Agreement and perform its obligations herein set forth; and
- (c) by an agreement dated June 24, 2008 between the Member Country and the World Bank (the PRODERS Loan Agreement), the World Bank agreed to make a loan to the Member Country equal to thirty seven million five hundred thousand Dollars (\$37,500,000) (the PRODERS Loan) to assist in financing the Sustainable Agriculture and Rural Development Project (PRODERS), a component of which project (set forth in Part 3 (a) of Schedule 1 to the PRODERS Loan Agreement) has been partially revised in Part A.2 of Schedule 1 to this Agreement (“Project”) to accurately reflect the type of investments to be financed by Community Grants II in the Project Area, on the terms and conditions set forth in the PRODERS Loan Agreement.

The Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions

- 1.01. The Standard Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in Preamble or in the Appendix to this Agreement.

Article II
The Project

- 2.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall: (a) carry out: (i) Parts A.1, A.3 through A.6, B.3 and D of the Project; (ii) Parts B.1, B.2, C.1 (a) and (b), and C.2 through C.5 of the Project with the assistance of SEAM (pursuant to the pertinent provisions of the Implementation Agreement); and (iii) Part C.1 (c) of the Project with the assistance of the MAG and SEAM (pursuant to the pertinent provisions of the Implementation Agreement); and (b) cause the Member Country, through MAG, to carry out Part A.2 of the Project (pursuant to the pertinent provisions of the Implementation Agreement), all in accordance with the provisions of Article II of the Standard Conditions.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

Article III
The Grant

- 3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to four million five hundred thousand Dollars (\$4,500,000) (“Grant”) to assist in the partial financing of the Project (with the exception of Part A.2 of the Project).
- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

- 3.03. The Grant is funded out of the abovementioned GEF Trust Fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions, the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

Article IV Additional Remedies

- 4.01. The Additional Events of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following:
- (a) The Member Country, through MAG, and/or SEAM shall have failed to comply with any of its pertinent obligations under the Implementation Agreement.
 - (b) The World Bank has determined after the Effective Date referred to in Section 5.03 of this Agreement that, prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.

Article V Effectiveness; Termination

- 5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied.
- (a) The execution and delivery of this Agreement on behalf of the Recipient has been duly authorized or ratified by all necessary corporate action, and all governmental action, if applicable.
 - (b) The Implementation Agreement has been executed by the parties thereto.
- 5.02. As part of the evidence to be furnished pursuant to Section 5.01 (a), there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank, showing the following matters:
- (a) on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms; and

- (b) the Implementation Agreement has been duly authorized or ratified by the Recipient, the Member Country, through MAG, and SEAM, 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 of this Agreement (“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. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 90 days after the date of this Agreement (the Effectiveness Deadline), 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.
- 5.05. Without prejudice to Section 5.04 of this Agreement, the Effectiveness Deadline shall in no case be later than eighteen (18) months after the Board approval of the Grant which expire on December 17, 2011.

Article VI
Recipient’s Representative; Addresses

- 6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions are the Directors General, acting jointly under this Agreement.
- 6.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

De la Residenta 1075 casi Washington
Asunción, Paraguay
(595) 21 248 1905

With copies to:

Secretaría del Ambiente
Madame Lynch 3500, Campo Grande
Asunción, Paraguay
(595) 21 615 806

Ministerio de Agricultura y Ganadería
Presidente Franco y 14 de Mayo
Asunción, Paraguay
(595) 21 449 951
Ministerio de Hacienda
Palma y Chile 128
Asunción, Paraguay
(595) 21 448 283

- 6.03. 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 Washington, D.C.	248423 (MCI) or 64145 (MCI)	1-202-477-6391

AGREED at Hernandarias, Paraguay, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
acting as an Implementing Agency of the
Global Environment Facility

By /s/ Penelope Brook

Authorized Representative

ITAIPÚ

By /s/ Gustavo Cotas Friedmann

Authorized Representative

By /s/ Jorge Miguel Samek

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Member Country's continued efforts to achieve sustainable natural resource-based economic development in the Project Area, by: (a) establishing the Mbaracayú-San Rafael conservation corridor within public and private lands through sustainable native forest management practices for biological connectivity; (b) encouraging sustainable agricultural practices that maintain biodiversity within productive landscapes, while increasing productivity and mainstreaming biodiversity conservation; (c) strengthening the institutional capacity of MAG to implement conservation techniques in the rural landscape; (d) strengthening the institutional capacity of SEAM to improve knowledge on forest and biodiversity conservation activities, including the monitoring and enforcement of said activities; and (e) strengthening the National Protected Areas System.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the World Bank may agree upon from time to time to achieve such objectives.

Part A: Re-Establishment of Connectivity between Protected Areas

1. The provision of Community Grants I to carry out demand-driven investments on, *inter alia*: (a) sustainable use of forest remnants to generate income while conserving biodiversity; (b) restoration and regeneration of forests to combat habitat degradation and erosion of land in areas with degraded or no forests; and (c) any other investment of similar nature acceptable to the World Bank.
2. The provision of Community Grants II to carry out demand-driven socio-productive investments on, *inter alia*: (a) adoption of sustainable land use practices; (b) increasing crop and livestock (small animals) production; (c) forest and water conservation practices at farm levels; (d) diversification and improvement of production systems to increase income; (e) adoption of increased carbon sequestration practices; and (f) any other investment of similar nature acceptable to the World Bank.
3. Provision of technical assistance to potential Beneficiaries in the design of Community Subprojects I.
4. Preparation of an operational procedures manual for Community Subprojects I, (the Community Subproject I Manual) which manual shall include, *inter alia*: (a) the criteria for selecting Beneficiaries and approving Community Subprojects I; (b) the guidelines to be followed by Beneficiaries in the presentation of Community Subprojects I for approval thereof; (c) the functions and

responsibilities of the EC; and (d) the terms of reference for the semi-annual technical audits referred to in Part A.5 below.

5. Carrying out of semi-annual technical audits of Community Subprojects I in a manner and on terms acceptable to the World Bank.
6. Provision of technical assistance to the Recipient to assist it in the supervision of the implementation of Community Subprojects.

Part B: Strengthening and Expansion of the National Protected Areas System

1. Strengthening the management of existing Public Protected Areas and Itaipú-Owned Protected Areas through, *inter alia*, the carrying out of the following activities: (a) the development and approval of voluntary management plans for the Caazapá National Park, the Ybyturuzú Managed Resource Reserve and the Ñacunday National Park; (b) the implementation of voluntary management plans for the Caazapá National Park, the San Rafael Managed Resource Reserve, the Ybyturuzú Managed Resource Reserve and the Ñacunday National Park; (c) the provision of technical assistance to design a demarcation plan of the area covered by the Ybyturuzú Managed Resource Reserve and the Ñacunday National Park; and (d) the carrying out of selected infrastructure investments in the Caazapá National Park and the San Rafael Managed Resource Reserve, which investments consist of, *inter alia*, rehabilitation of roads (within the existing right-of-way), the construction of park ranger posts, and the installation of a radio system for the communication among park rangers, all in accordance with criteria acceptable to the World Bank.
2. Promoting the establishment of Private Protected Areas, through, *inter alia*, the carrying out of the following activities: (a) the elaboration of proposals for the creation of 10 new Private Protected Areas; and (b) the development of at least six voluntary management plans for existing or new Private Protected Areas.
3. Establishment of a biological sub-corridor (within the Mbaracayú-San Rafael conservation corridor) to be named as the Carapá Biological Sub-Corridor, through, *inter alia*, the carrying out of the following activities: (a) the definition of micro-corridors; (b) the restoration of natural habitats within said sub-corridor; and (c) the implementation of management plans for six Itaipú-Owned Protected Areas.

Part C: Enhanced Policy Framework and Institutional Strengthening

1. Carrying out of, *inter alia*, the following capacity building activities: (a) the provision of training to staff of selected Municipalities and Departments on environmental management; (b) the acquisition and utilization of selected equipment and vehicles for SEAM to assist SEAM in the carrying out of its functions and responsibilities; and (c) the provision of training to MAG's staff on biodiversity conservation techniques in the rural landscape of the Mbaracayú-San Rafael conservation corridor.
2. Carrying out of communication and Project dissemination activities, which include, *inter alia*, the following activities: (a) the design and implementation of communication campaigns; (b) the provision of training and the elaboration/production of training materials; and (c) the dissemination of the National Environmental Policy and the National Strategy for Biodiversity Conservation.
3. (a) Design of land use plans for selected Municipalities; and (b) design of a system to monitor compliance with the land use plans mentioned in (a) herein.
4. Carrying out of, *inter alia*, the following activities aimed at encouraging sound management of natural resources, and at addressing major gaps in knowledge for sound decision-making on incentives for natural resource management: (a) the design of regulations/mechanisms to implement Law No. 3001/06; (b) the design and implementation of a pilot program on tradable rights (*derechos canjeables*); (c) the elaboration of proposals for establishing disincentives for the irrational use of natural resources; (d) the provision of support for the certification or labeling/marketing of sustainably-produced products in the marketplace; and (e) the carrying out of a study on a mechanism to provide ecosystem services by the Recipient.
5. Design and implementation of an environmental education program.

Part D: Project Management, Monitoring and Evaluation

1. Design and implementation of a Project monitoring and evaluation system.
2. Design and implementation of a land-use monitoring system.
3. Design and implementation of a Project integrated management information system.

SCHEDULE 2

Project Execution

Section I. Implementation and Other Arrangements

- A. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
- B. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Recipient shall carry out the Project (other than Part A.2 of the Project) in accordance with the provisions of: (i) the Operational Manual; (ii) the Community Subproject I Manual; and (iii) the Environmental Management Plan.
- (b) In case of any conflict amongst the terms of the Operational Manual, the Community Subproject I Manual, the Environmental Management Plan and those of this Agreement, the terms of this Agreement shall prevail.
- C. (a) For purposes of carrying out Parts A.2, B.1, B.2, and C of the Project, the Recipient shall enter into a tripartite agreement (the Implementation Agreement) with the Member Country, through MAG, and SEAM under terms and conditions which shall have been approved by the World Bank which shall include, *inter alia*, those set forth in Schedule 3 to this Agreement.
- (b) (i) The Recipient shall exercise its rights and carry out its obligations under the Implementation Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant; and (ii) except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, terminate, waive or fail to enforce the Implementation Agreement or any provision thereof.
- D. (a) Upon approval of a Community Subproject I, the Recipient shall:
- (i) make available, on a grant basis, part of the proceeds of the Grant allocated to Category (2) (the Community Grant I) to the corresponding Beneficiary under a community subproject agreement (the Community Subproject I Agreement) to be entered into between the Recipient and said Beneficiary under terms and conditions acceptable to the World Bank, which shall include, *inter alia*, those set forth in Schedule 4 to this Agreement;

- (ii) immediately after the corresponding Community Subproject I Agreement has been signed by the parties thereto, carry out, or cause to be carried, an environmental/social screening and/or an environmental/social assessment (as the case may be) of the pertinent Community Subproject I in accordance with the provisions of the Environmental Management Plan; and
 - (iii) if the environmental/social screening and/or environmental/social assessment mentioned in (ii) herein has identified potential negative environmental/social impacts (in which case the results of the environmental/social screening/assessment shall include, *inter alia*, the pertinent mitigatory measures and their implementation timing), carry out and/or cause the pertinent Beneficiary to carry out, said mitigatory measures in a manner and on terms acceptable to the World Bank pursuant to the terms of the corresponding Community Subproject I Agreement; and
 - (b)
 - (i) The Recipient shall exercise its rights and carry out its obligations under each Community Subproject I Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant; and
 - (ii) except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, repeal, terminate, waive or fail to enforce any Community Subproject I Agreement or any provision thereof.
- E. In addition to the provisions of Section I.D above, the Recipient shall refrain from presenting Grant withdrawal applications to the World Bank and/or withdrawing Grant proceeds from the Designated Account, all under Category (2), until the Recipient has furnished to the World Bank evidence, acceptable to the World Bank, indicating that: (a) the Community Subproject I Manual has been approved by the Recipient; (b) an evaluation committee (the EC) of Community Subprojects I has been established with functions and responsibilities acceptable to the World Bank; and (c) the auditor to carry out the audits referred to in Part A.5 of the Project has been hired as provided in Section II.B.4 (a) of this Schedule.

- F. Without limitation to the provisions of Section I.C of this Schedule, and for purposes of carrying out Part A.2 of the Project, the Recipient shall cause the Member Country, through MAG, to comply with the pertinent provisions stipulated in the PRODERS Loan Agreement, as applicable to Community Subprojects II, which provisions shall constitute an integral part of this Agreement.
- G. (a) For purposes of carrying out any Project activity in which the participation of a Municipality and/or a Department is needed (as determined by the Recipient), the Recipient shall, if applicable, prior to the carrying out of any given Project activity, enter into an agreement (the Participation Agreement) with the corresponding Municipality and/or Department under terms and conditions which shall have been approved by the World Bank which shall include, *inter alia*, the obligation of the pertinent Municipality and/or Department to provide the necessary assistance, and/or to take or permit to be taken all actions, to enable the Recipient to comply with its obligations referred to in this Agreement, as applicable to the relevant Project activity.
- (b) (i) The Recipient shall exercise its rights and carry out its obligations under each Participation Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant; and (ii) except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, repeal, terminate, waive or fail to enforce any Participation Agreement or any provision thereof.
- H. Without limitation to the pertinent provisions of this Agreement, and if as a result of the carrying out of the environmental/social screening and/or environmental/social assessment referred to in I.D (a) (ii) of this Schedule it is determined that indigenous peoples are present in the pertinent area and/or scope of any given Community Subproject I, the Recipient shall: (a) prior to the carrying out of the corresponding Community Subproject I, prepare and/or cause the pertinent Beneficiary to prepare an indigenous peoples plan (acceptable to the World Bank) for each said Community Subproject I (which plan shall be consistent with the provisions of the Indigenous Peoples Planning Framework); and (b) immediately thereafter, implement, and/or cause said pertinent Beneficiary to implement each indigenous peoples plan in accordance with its terms, and in a manner acceptable to the World Bank.
- I. Without limitation to the pertinent provisions of this Agreement, and if it is determined that indigenous peoples are present in the pertinent area and/or scope of any given Project activity (other than under any given Community Subproject), the Recipient shall: (a) prior to the carrying out of any said Project activity, prepare and/or cause to be prepared an indigenous peoples plan

(acceptable to the World Bank) for each said Project activity (which plan shall be consistent with the provisions of the Indigenous Peoples Planning Framework); and (b) immediately thereafter, implement and/or cause to be implemented each said indigenous peoples plan in accordance with its terms, and in a manner acceptable to the World Bank.

- J. Without limitation to the provisions of Section 2.01 (a) (ii) of this Agreement, and upon the selection of an infrastructure investment under Part B.1 (d) of the Project, the Recipient shall: (a) prior to the commencement of any given investment under said Part of the Project, carry out an environmental/social screening and/or an environmental/social assessment (as the case may be) of the pertinent investment, and if determined by the Bank, approve an environmental management plan, acceptable to the World Bank, for each said investment (which plan shall be based on the results of the environmental/social screening and/or environmental/social assessment mentioned herein, and the World Bank's comments on the results of said screening and/or assessment, if any); and (b) immediately after said approval, implement and/or cause to be implemented (as the case may be) the corresponding environmental management plan in accordance with its terms.
- K. The Recipient shall ensure, and cause each Beneficiary to ensure, that any works under the Project do not involve any Resettlement.
- L. (a) The Recipient shall, not later than one month after the Effective Date, establish, and thereafter operate and maintain, at all times during Project implementation: (i) a management council (the MC); (ii) an executive working group (the EWG); and (iii) a project management unit (the PMU), all with a structure, functions and responsibilities acceptable to the World Bank, as set forth in the Operational Manual.
- (b) The Recipient, shall ensure that: (i) the EWG is at all times during Project implementation headed by Project manager; and (ii) the PMU is at all times during Project implementation headed by a Project coordinator and assisted by professional staff (including, *inter alia*, an indigenous peoples specialist, a biodiversity specialist, a natural resource management specialist, an administrative/financial management specialist, a procurement specialist, and a Community Subproject coordinator) and administrative staff in numbers and with terms of reference, and qualifications and experience, acceptable to the World Bank.

- (c) The Recipient undertakes that, unless the World Bank may otherwise agree, the PMU personnel assigned to the Project shall only be hired based on professional criteria and shall only be replaced for reasons related to performance.
 - (d) Without limitation to the provisions of Section I.E (b) of this Schedule, the Recipient shall operate and maintain, at all times during Project implementation, the EC with the functions and responsibilities set forth in the Community Subproject I Manual.
- M. The Recipient shall, prior to the commencement of each calendar year during Project implementation, create, and thereafter maintain throughout each said calendar year of Project implementation, a specific budget line entry in the relevant annual Recipient budget in order to keep track of the corresponding expenditures incurred during Project implementation.
- N. The Recipient shall, not later than one year after the Effective Date, establish, and thereafter operate and maintain, at all times during Project implementation:
 - (a) a separate web page, for purposes of disseminating Project information to stakeholders;
 - (b) a digital filing system for purposes of storing documentation related to the Project's procurement process and contract management (such as, payment certificates, invoices, receipts, and contract guarantees); and
 - (c) a separate Project integrated management information system, all on terms and in a manner acceptable to the World Bank.
- O. Without limitation to the provisions of Section 2.01 of this Agreement, the Recipient shall:
 - (a) not later than November 30 of each year of Project implementation, prepare and furnish to the World Bank an annual Project operating plan, acceptable to the World Bank, which plan shall include, *inter alia*, the Project activities to be carried out during the calendar year following the date of presentation of each said plan; and
 - (b) thereafter, carry out and/or cause to be carried out each of said plans in accordance with its terms, and in a manner acceptable to the World Bank.
- P. In connection with the design of the demarcation plan and land use plans under Parts B.1 (c) and C.3 (a) of the Project, respectively, the Recipient shall ensure that the terms of reference for said Project activities include a provision, satisfactory to the World Bank, mandating that the Recipient incorporate and/or cause to be incorporated the World Bank Safeguard Policies to said plans.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth in the Operational Manual. Each Project Report shall cover the period of one calendar semester (starting with the calendar semester in which the Effective Date falls), and shall be furnished to the World Bank not later than forty five (45) calendar days after the end of the period covered by each such report.
2. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.
3. For purposes of Section 2.06 (b) (i) (B) of the Standard Conditions, the Recipient shall, not later than April 30, 2012, exchange views with the World Bank, MAG, and SEAM (the mid-term review) on the execution of the Project, and the pertinent Project Reports covering the last two calendar semesters preceding the date of said mid-term review.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the pertinent Project Report referred to in Section II.A.1 above, covering the corresponding calendar semester, in form and substance satisfactory to the World Bank.
3. 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. 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.

4. Without limitation to the provisions of Section II.B.3 of this Schedule, and for purposes of carrying out Part A.5 of the Project, the Recipient shall: (a) hire an independent financial auditor with experience and qualifications acceptable to the World Bank; (b) each calendar semester (starting with the calendar semester in which the Effective Date falls) have Part A.1 of the Project audited by the auditor mentioned in (a) herein in accordance with terms of reference set forth in the Operational Manual, and with consistently applied auditing financial standards, all acceptable to the World Bank; and (c) not later than sixty calendar days after the completion of each said audit, furnish and/or cause to be furnished to the World Bank the information as so audited, and such other information concerning the audited information and such auditors, as the World Bank may from time to time reasonably request.

Section III. Procurement

A. General

1. **Procurement and Consultant Guidelines.** All goods, works, Non-Consultant Services and/or consultants' services required for the Project and to be financed out of the proceeds of the Grant, as set forth in the table in Section IV.A.2 of this Schedule, shall be procured in accordance with the requirements set forth or referred to in:
 - (a) Section I of the Procurement Guidelines in the case of goods, works and Non-Consultants Services, and Sections I and IV of the Consultant Guidelines in the case of consultants' services;
 - (b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines ("Procurement Plan"); and
 - (c) the special provisions referred to in paragraph 4 of this Section III.
2. All goods, works, Non-Consultant Services and consultants' services to be financed under Community Grants II shall be procured in accordance with the procurement procedures stipulated in the PRODERS Loan Agreement.
3. **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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.

4. **Special Provisions.** Without limitation to the provisions in Section III A.1 of this Schedule, the following additional provisions shall also govern the procurement of goods, works, Non-Consultant Services and/or consultants' services to be financed out of the proceeds of the Grant as set forth in the table in Section IV.A.2 of this Schedule, as applicable:
- (a) procurement of consultants' services (in respect of firms) shall be carried out using: (i) standard requests for proposals, which shall all include, *inter alia*, a settlement of dispute provision; (ii) model proposals evaluation forms; and (iii) model contract forms, all acceptable to the World Bank;
 - (b) foreign consultants shall not, as a condition for submitting proposals and/or for contract award: (i) be required to be registered in Paraguay; (ii) be required to have a representative in Paraguay; (iii) be required to be associated or subcontract with Paraguayan consultants; and (iv) be required to furnish evidence to the Recipient that they have purchased the pertinent standard requests for proposals;
 - (c) the Recipient shall: (i) supply the SEPA with the information contained in the initial Procurement Plan within 30 days after such plan has been approved by the World Bank; and (ii) update the Procurement Plan at least every six months, or as required by the World Bank, to reflect the actual project implementation needs and progress and shall supply the SEPA with the information contained in the updated Procurement Plan immediately thereafter;
 - (d) after the public opening of consultants' proposals, information relating to the examination, clarification and evaluation of proposals and recommendations concerning awards shall not be disclosed to consultants or other persons not officially concerned with this process until the publication of contract award (except as provided in paragraphs 2.20 and 2.27 of the Consultant Guidelines). In addition, consultants and/or other persons not officially concerned with said process shall not be allowed to review or make copies of other consultants' proposals; and
 - (e) consultants shall not be required to submit bid or performance securities.

B. Particular Methods of Procurement of Goods, Works and Non-Consultant Services

1. **Community Participation.** Goods, works and Non-Consultant Services under Community Subprojects I shall be procured under contracts awarded on the basis of Community Participation procedures, set forth in the Operational Manual.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **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 assignments which are specified in the Procurement Plan: (a) Least Cost Selection; (b) Single-source Selection; (c) Procedures set forth in paragraphs 5.1 through 5.3 of the Consultant Guidelines for Selection of Individual Consultants; and (d) Sole Source Procedures for the Selection of Individual Consultants set forth in paragraph 5.4 of the Consultant Guidelines.

D. Review by the World Bank of Procurement Decisions

1. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Section IV. Withdrawal of Grant Proceeds

A. General

1. 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 table in paragraph 2 below.

2. The following 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 (including audit services) and/or Training/Workshops under Parts A.3 through A.6, B, C and D of the Project	2,500,000	100%
(2) Goods, works, Non-Consultant Services and/or consultants’ services financed by Community Grants I	1,737,000	100% of amounts disbursed
(3) Unallocated	263,000	
TOTAL AMOUNT	4,500,000	

For purposes of this paragraph 2, the term “Training/Workshops” means expenditures (other than those for consultants’ services) incurred by the Recipient, as approved by the World Bank on the basis of an annual budget acceptable to the World Bank, to finance reasonable transportation costs and per-diem of trainees and trainers (if applicable), training/workshop registration fees, training/workshop materials and rental of training/workshop facilities and equipment in respect of the Project activities referred to in Category (1).

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is April 10, 2014.

SCHEDULE 3

Terms and Conditions of the Implementation Agreement

The Implementation Agreement shall contain, *inter alia*, the following provisions:

- (a) the obligation of the Recipient to: (i) carry out the Project as provided in Section 2.01 of this Agreement; and (ii) ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
- (b) the right of the Recipient to take remedial actions against the Member Country and/or SEAM in case the Member Country and/or SEAM shall have failed to comply with any of its obligations under the Implementation Agreement (which actions shall previously be agreed with the World Bank);
- (c) the obligation of the Member Country, through MAG:
 - (i) to provide the necessary technical support to the Recipient in order to carry out the Project activities referred to in Section 2.01 (a) (iii) of this Agreement, which technical support consists of, *inter alia*, undertaking actions to mainstream biodiversity conservation into productive landscapes;
 - (ii) to comply with the provisions of the Anti-Corruption Guidelines in connection with the technical support mentioned in (i) herein (by for example, allowing World Bank inspection and audit rights under paragraph 9 (d) of the Anti-Corruption Guidelines);
 - (iii) to carry out Part A.2 of the Project as provided in Section I.F of Schedule 2 to this Agreement;
 - (iv) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Implementation Agreement or any provision thereof unless previously agreed by the World Bank; and
 - (v) to take or permit to be taken all action to enable the Recipient to comply with its obligations referred to in this Agreement and in the Implementation Agreement, as applicable to the carrying out of the Project activities mentioned in (c) (i) and (iii) above; and

- (d) the obligation of SEAM:
- (i) to provide the necessary technical support to the Recipient in order to carry out the Project activities referred to in Section 2.01 (a) (ii) and (iii) of this Agreement, which technical support consists of, *inter alia*: (A) undertaking biodiversity conservation actions in Protected Areas; and (B) carrying out forest monitoring activities, all as approved by the World Bank;
 - (ii) to comply with the provisions of the Anti-Corruption Guidelines in connection with the technical support mentioned in (i) herein (by for example, allowing World Bank inspection and audit rights under paragraph 9 (d) of the Anti-Corruption Guidelines);
 - (iii) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Implementation Agreement or any provision thereof unless previously agreed by the World Bank; and
 - (iv) to take or permit to be taken all action to enable the Recipient to comply with its obligations referred to in this Agreement and in the Implementation Agreement, as applicable to the carrying out of the Project activities mentioned in (d) (i) above.

SCHEDULE 4

Terms and Conditions of Community Subproject I Agreements

Each Community Subproject I Agreement shall contain, *inter alia*, the following provisions:

- (a) the obligation of the Recipient:
 - (i) to promptly disburse to each Beneficiary the proceeds of the corresponding Community Grant I to finance up to 75% of the cost of the pertinent Community Subproject I, and in a manner acceptable to the World Bank; and
 - (ii) to ensure that the pertinent Community Subproject I is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
- (b) the right of the Recipient to take remedial actions against the pertinent Beneficiary in case said Beneficiary shall have failed to comply with any of its obligations under the pertinent Community Subproject I Agreement (which actions may include, *inter alia*, the partial or total suspension and/or cancellation of the proceeds of the Community Grant I (as the case may be), all as previously agreed with the World Bank); and
- (c) the obligation of each Beneficiary:
 - (i) to carry out the pertinent Community Subproject I with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental, social and cultural property practices, and in accordance with the pertinent provisions of the Operational Manual, the Environmental Management Plan and the Indigenous Peoples Planning Framework (as applicable);
 - (ii) to ensure that the pertinent Community Subproject I is carried out in accordance with provisions of the Anti-Corruption Guidelines (by for example, allowing World Bank inspection and audit rights under paragraph 9 (d) of the Anti-Corruption Guidelines);

- (iii) to use the Community Grant I for purposes of partially financing the carrying out of the pertinent Community Subproject I;
- (iv) to, except as the World Bank shall otherwise agree, provide a contribution of at least 25% of the cost of the Community Subproject I (either through an in-kind contribution and/or the provision of labor), as well as facilities, services and other resources, necessary or appropriate to carry out the corresponding Community Subproject I;
- (v) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Community Subproject Agreement I or any provision thereof unless previously agreed by the Recipient and World Bank;
- (vi) if applicable, to comply, or caused to be complied, with the obligations referred to in Sections 2.03, 2.04, 2.05 and 2.08 of the Standard Conditions (relating to land acquisition, use of goods, works and services, plans, documents and records, cooperation and consultation and visits, respectively) in respect of said Community Subproject I; and
- (vii) to take or permit to be taken all action to enable the Recipient to comply with its obligations referred to in this Agreement, as applicable to the carrying out of Community Subprojects I.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Beneficiaries” means: (a) an indigenous community (which is defined for purposes of this Agreement as an indigenous group duly organized as a legal entity under the Member Country’s legislation (as the term “indigenous” is defined in the Indigenous Peoples Planning Framework (as defined below)); (b) a small, medium and/or large farmer; and/or (c) a non-government organization operating in the Project Area, all of which have met the criteria set forth in the Community Subproject I Manual to be benefited by a Community Grant I (as defined below).
3. “Caazapá National Park” means the park created pursuant to SEAM’s Resolution No. 1.394/05 dated August 29th, 2005.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Community Grant I” means a grant made out of the proceeds of the Grant to finance a Community Subproject I (as defined below).
6. “Community Grant II” means a grant made out of the proceeds of the PRODERS Loan to finance a Community Subproject II (as defined below).
7. “Community Subproject” means a Community Subproject I and/or a Community Subproject II, as the case may be.
8. “Community Subproject I” means any of the investments under Part A.1 of the Project.
9. “Community Subproject II” means any of the investments under Part A.2 of the Project.
10. “Community Subproject I Agreement” means any of the agreements referred to in Section I.D (a) (i) of Schedule 2 to this Agreement.
11. “Community Subproject I Manual” means the manual referred to in Part A.4 of the Project, as said manual may be amended from time to time with the agreement of the World Bank.

12. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006.
13. “Department” means any political subdivision of the Member Country, created pursuant to article 159 of its 1992 Constitution, which exercises territorial jurisdiction in the Project Area (as defined below).
14. “EC” means the committee referred to in Section I.E (b) of Schedule 2 to this Agreement, or any successor thereto acceptable to the World Bank.
15. “Effective Date” means the date referred to in Section 5.03 of this Agreement.
16. “Environmental Management Plan” means the Recipient’s plan dated April 17, 2008, acceptable to the World Bank, which plan sets forth, *inter alia*: (a) the guidelines for carrying out the environmental/social screenings/assessments referred to in Section I.D (a) (ii) and I.J of Schedule 2 to this Agreement; (b) the actions to be followed in connection with the finding of cultural property; (c) the actions to prevent forest degradation and promote reforestation and regeneration of natural forests; (d) the actions to prevent natural habitat conversion or degradation; (e) the Indigenous Peoples Planning Framework (as defined below); and (f) the actions to mitigate any environmental negative impact as a result of the carrying out of the Project, as said plan may be amended from time to time with the agreement of the World Bank.
17. “EWG” means the working group referred to in Section I.L (a) (ii) of Schedule 2 to this Agreement, or any successor thereto acceptable to the World Bank.
18. “Implementation Agreement” means the agreement referred to in Section I.C (a) of Schedule 2 to this Agreement.
19. “Indigenous Peoples Planning Framework” means the framework (*Estrategia para Pueblos Indígenas*) dated April 17, 2008, acceptable to the World Bank (included in the Environmental Management Plan), which framework includes, *inter alia*, the principles, objectives, methodology and the contents to be included in each indigenous peoples plan cited in Sections I.H and I.I of Schedule 2 to this Agreement.
20. “Itaipú-Owned Protected Area” means an area owned by the Recipient and located within the Project Area, which has been established for purposes of preserving the biodiversity and natural resources in said protected area.
21. “Law No. 3001/06” means the Member Country’s Law No. 3001 dated September 13th, 2006 (duly published in the Member Country’s Official Gazette

on September 19th, 2006), which governs, *inter alia*, the valuation and compensation for environmental services.

22. “MAG” means *Ministerio de Agricultura y Ganadería*, the Member Country’s Ministry of Agriculture and Livestock.
23. “MC” means the council referred to in Section I.L (a) (i) of Schedule 2 to this Agreement, or any successor thereto acceptable to the World Bank.
24. “Municipality” means any political subdivision of the Member Country, created pursuant to Article 159 of its 1992 Constitution, which exercises territorial jurisdiction in the Project Area (as defined below).
25. “Ñacunday National Park” means the park created pursuant to the Member Country’s Decree No. 17.071 dated August 20th, 1975.
26. “National Environmental Policy” means the national policy approved by the Member Country’s National Environmental Council through SEAM’s Resolution No. 4/05 dated May 31st, 2005, which policy provides for, *inter alia*, the guidelines, strategies and principles governing the implementation of said policy.
27. “National Protected Areas System” means the *Sistema Nacional de Áreas Protegidas del Paraguay (SINASIP)* referred to in Article 5 of the Member Country Law N° 352/94 (*Ley “De Áreas Silvestres Protegidas”*) dated May 24th, 1994, which system is comprised of all Protected Areas of ecological and social relevance for purposes of carrying out an orderly management of the same in accordance with the Member Country’s conservation objectives and policies.
28. “National Strategy for Biodiversity Conservation” means the *Estrategia Nacional y Plan de Acción para la Conservación de la Biodiversidad (ENPAB)* approved by SEAM’s Resolution 59/03, dated November 2003, which strategy provides for, *inter alia*, the guidelines, strategies and principles governing the wildlife protected areas.
29. “Non-Consultant Services” means services under the Project, which services will be bid and contracted on the basis of performance of measurable physical outputs.
30. “Operational Manual” means the Recipient’s manual, dated September 9, 2009, acceptable to the World Bank, which manual sets forth, *inter alia*: (a) the criteria for selecting infrastructure investments under Part B.1 (d) of the Project; (b) the criteria for selecting Municipalities and Departments under Part C.1 (a) of the Project; (c) the criteria for selecting equipment and vehicles under Part C.1 (b) of the Project; (d) the criteria for selecting Municipalities under Part C.3 (a) of the Project; (e) the MC, the EWG, and the PMU structures and their functions and

responsibilities; (f) the Project's chart of accounts and internal controls; (g) the format of: (A) the unaudited interim financial reports referred to in Section II. B.2 of Schedule 2 to this Agreement; and (B) the Financial Statements; (h) the terms of reference for carrying out the Project audits and the audits under Section II.B.4 of Schedule 2 to this Agreement; (i) the Project indicators (including the results framework); and (j) the Project disbursement and procurement procedures, as said manual may be updated and/or amended from time to time with the agreement of the World Bank.

31. "Participation Agreement" means any of the agreements referred to in Section I.G (a) of Schedule 2 to this Agreement.
32. "PMU" means the unit referred to in Section I.L (a) (iii) of Schedule 2 to this Agreement, or any successor thereto acceptable to the World Bank.
33. "Private Protected Area" means an area owned by a private individual and/or a legal entity duly authorized to operate in the Member Country's territory and located within the Project Area, which has been established for purposes of preserving the biodiversity and natural resources in said protected area.
34. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the World Bank in May 2004 and revised in October 2006.
35. "Procurement Plan" means the Recipient's procurement plan for the Project, dated September 9, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
36. "PRODERS Loan" the loan referred to in the Whereas Clause (c) of this Agreement.
37. "PRODERS Loan Agreement" means the agreement referred to in the Whereas Clause (c) of this Agreement.
38. "Project Area" means the area comprised of parts of the territories of the Departments of Caaguazú, Alto Paraná, Caazapá and Itapúa, which territories are located within the Upper Parana Atlantic Forest ecoregion of the Member Country territory.
39. "Protected Area" means an Itaipú-Owned Protected Area, a Private Protected Area and/or a Public Protected Area (as the case may be).

40. “Public Protected Area” means an area owned by the Member Country and located within the Project Area, which has been established to preserve biodiversity and natural resources in said protected area.
41. “Resettlement” means the impact of: (a) an involuntary taking of land under the Project, which taking causes affected persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently; or (b) an involuntary restriction of access to legally designated parks and protected areas (including reserves) which causes an adverse impact on the livelihoods of the displaced persons.
42. “San Rafael Managed Resource Reserve” the reserve created pursuant to the Member Country’s Decree No. 5577/05 dated June 10th, 2005.
43. “SEAM” means *Secretaría del Ambiente*, the Member Country’s Secretary of the Environment.
44. “SEPA” means the World Bank’s publicly accessible Procurement Plans Execution System.
45. “Standard Conditions” means the Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 1, 2008.
46. “World Bank Safeguard Policies” means the World Bank’s operational policies and procedures set forth in the World Bank’s Operational Manual under OP/BPs 4.01,4.04,4.07,4.09, 4.10, 4.11, 4.12, 4.36 and 4.37, as said manual is published under www.WorldBank.org/opmanual.
47. “Ybyturuzú Managed Resource Reserve” means the reserve created pursuant to the Member Country’s Decree No. 5815/90 dated May 17th, 1990.