March 4, 1999

Mr. Victor Joy Way  
Minister  
Ministry of Economy and Finance  
Lima, Perú

Re: Grant for Preparation of Indigenous Management of Protected Areas in the Peruvian Amazon Project GEF-PPG No. 021853

Dear Sir:

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) acting as an Implementing Agency of the GEF to indicate the Bank’s agreement to grant to Republic of Peru (the Recipient) a Grant in an amount not exceeding US$350,000 (three hundred and fifty thousand Dollars) (the Grant). The purpose of the Grant is to finance certain expenditures required for the preparation of the Biodiversity Conservation and Indigenous Management of New Protected Areas in the Peruvian Amazon Project.

The Grant is made in response to the Recipient’s request for financial assistance and for the purposes of and on the terms and conditions set forth in the Annex to this Letter Agreement. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions.

The award of the Grant does not constitute or imply any commitment on the part of the Bank, either as a GEF Implementing Agency, or in its own capacity, or the International Development Association, to assist in financing any project or activities which will result from the activities financed by the Grant.
Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter. Upon receipt by the Bank of the copy of this Letter Agreement countersigned by you, this Letter Agreement will become effective as of the date of the countersignature.

Very truly yours,

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

By  
Isabel Guerrero  
Country Director  
Bolivia, Paraguay and Peru  
Latin America and the Caribbean Region

AGREED:

By  
Authorized Representative  
Fernando de Trazegnies Grandje  
Ministro de Relaciones Exteriores  

Date: 25.05.99

Attachment
Purposes, Terms, and Conditions of the Grant

1. Activities

The activities (the Activities) for which the Grant is given are as follows:

(a) Carry out initial and local consultations for the identification of Project areas.
(b) Carry out a social assessment to evaluate the impact of the Project and identify the main stakeholders.
(c) Carry out consultation workshops at the regional level with indigenous communities to discuss the Project strategies and ensure full ownership and commitment in the Project.
(d) Carry out an assessment of management options, including surveys and evaluations of current community development, use of resources, conservation practices by customary law and outreach and education activities.
(e) Development of a monitoring and evaluation protocol based on biological, social and institutional considerations.
(f) Identification of co-funding institutions and additional partnerships, through carrying out workshops, meetings and information sessions.
(g) Consultation and agreement on the institutional framework for Project implementation, including the respective roles of the Instituto Nacional de Recursos Naturales (INRENA), the Secretaría Técnica de Asuntos Indígenas (SETAI) and the Multi-Sectoral Oversight Commission.
(h) Coordination and supervision of the Activities.

2. Implementation Generally

2.1. The Recipient through its Instituto Nacional de Recursos Naturales (INRENA), shall: (a) carry out the Activities with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Activities and the use of the proceeds of the Grant as the Bank shall reasonably request; (d) from time to time exchange views with the Bank’s representatives on the progress and results of the Activities; (e) take all necessary measures required to enable the Bank to visit the territory of Republic of Peru for the purposes related to the Grant, and; (f) provide additional human and financial resources required for the implementation of activities financed under the Grant. Without limitation on the foregoing, the Recipient shall, if the Bank shall so request, prepare and furnish to the Bank promptly upon completion of the Activities a report, in form and substance satisfactory to the Bank, on the results and impact of the Activities.
3. Procurement

3.1. Consultants' services to be financed out of the proceeds of the Grant shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency", published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used. The provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than $100,000 equivalent each, or (b) contracts for the employment of individual consultants estimated to cost less than $50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to $100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to $50,000 equivalent or above.

4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by the Bank on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of services required for the Activities and to be financed out of the proceeds of the Grant.

4.2. The expenditures for the following items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Activities:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount of the Grant Allocated Expenditures (in United States Dollars)</th>
<th>% of to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)  Consultants, Workshops and training</td>
<td>$280,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2)  Operational Expenditures</td>
<td>$70,000</td>
<td>90%</td>
</tr>
<tr>
<td>Total</td>
<td>$350,000</td>
<td></td>
</tr>
</tbody>
</table>
For purposes of this paragraph, the term “Workshops and training” includes expenditures for the organization of workshops, trainer fees, travel expenses of participants, facility and equipment rental, per diem of participants, translation services, materials, and report preparation, and; the term “Operational Expenditures” includes office supplies, equipment and utilities, travel costs and per diem for field work and communications (telephone and fax).

4.3. Notwithstanding the provisions of paragraph 4.2 above: (a) no withdrawals shall be made: (i) for payments made for expenditures prior to the date of this Letter Agreement; (ii) on account of payments for any taxes levied by or in the territory of the Recipient; (iii) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in or services supplied from such territories; (iv) for the purpose of any payment to persons or entities if such payment, to the Bank’s knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; or (v) after March 12, 2000 or such later date as the Bank shall establish by written notice to the Recipient (the Closing Date), except that withdrawals may be made for expenditures incurred for goods and services received for the purpose of this Grant prior to the Closing Date and received by the Bank within four months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be canceled; and (b) if, in the Bank’s opinion, an amount of the Grant allocated to any of the items in the table in paragraph 4.2 above will be insufficient to finance the expenditures for such item, it may, by written notice to the Recipient, reallocate to such item an amount of the Grant then allocated to another item which in its opinion will not be necessary to meet other expenditures.

4.4 When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to the Bank a written application for withdrawal of such amount in the form specified by the Bank. Withdrawal applications shall be: (a) signed on behalf of the Recipient by the Minister of Finance or such other person as he or she shall have authorized in writing; and (b) be accompanied by such evidence in support of the application as the Bank shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant is supporting evidence must be sufficient in form and substance to satisfy the Bank that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Activities. The Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5 The Bank may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) services of consulting firms costing less than $100,000 equivalent; and (b) services of individual consultants costing less than $50,000 equivalent; (c) workshop’s expenses, all under such terms and conditions as the Bank shall specify by notice to the Recipient, and; (d) operational expenditures.

4.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. The Bank, at the Recipient’s request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to
pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Bank.

4.7. To facilitate the carrying out of the Activities, the Recipient may open and maintain in US Dollars a special deposit account (the Special Account) in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of the Attachment to this Annex.

5. Accounts and Audits

5.1. (a) The Recipient shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect the Activities of the department or agencies of the Recipient responsible for carrying out the Activities or any part thereof.

(b) The Recipient shall: (i) have the records and accounts referred to in subparagraph (a) above and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles and consistently applied, by independent auditors with qualifications, experience and terms of reference acceptable to the Bank; (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof, and said auditors, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, records and accounts reflecting such expenditures; (ii) retain, until at least after one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable the Bank's representatives to examine such records; and (iv) ensure that such records and accounts are included in the annual audit referred to in subparagraph (b) above and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

6. Suspension and Cancellation

6.1. The Bank may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient has failed to comply with any of its obligations therein
specified; or (b) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Republic of Peru, to make withdrawals under any loan agreement with the Bank or any development credit agreement with the International Development Association shall have been suspended.

6.2. The Bank may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to the Bank, within 90 days after the effective date hereof, to carry out the Activities.
Special Account

1. For the purposes of this Attachment:

   (a) The term “eligible item(s)” means the item(s) set forth in the table in paragraph 4.2 of the Annex to this Letter Agreement;

   (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of services required for the Activities and to be financed out of the proceeds of the Grant; and

   (c) the term “Authorized Allocation” means an amount equivalent to $125,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) the Recipient shall furnish to the Bank a request or requests for a deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts out of the proceeds of the Grant as the Recipient shall have requested.

   (b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

   (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to a paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Grant Account under the eligible item(s), and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.
5. Notwithstanding the provisions of paragraph 3 of this Attachment, the Bank shall not be required to make further deposits into the Special Account.

   (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the Grant;

   (b) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in paragraph 5.1 (b) (ii) of the Annex of this Letter Agreement, any of the audit reports required to be furnished to the Bank pursuant to said paragraph in respect of the audit of the records and accounts for the Special Account:

   (c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 6.1 of the Annex to this Letter Agreement; or

   (d) Once the total withdrawn amount of the Grant shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or an amount not eligible pursuant to paragraph 2 of this Attachment; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

   (b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.