

CONFORMED COPY

LOAN NUMBER 4552 RU

Loan Agreement

(Sustainable Forestry Pilot Project)

between

RUSSIAN FEDERATION

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated March 30, 2001

LOAN NUMBER 4552 RU

LOAN AGREEMENT

AGREEMENT, dated March 30, 2001, between the RUSSIAN FEDERATION (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

(B) Part A of the Project will be carried out by the Borrower, with the assistance of the Participating Regions (as such term is defined in Section 1.02 (h) of this Agreement);

(C) Part B of the Project will be carried out by the Sub-borrowing Regions (as such term is defined in Section 1.02 (n) of this Agreement), with the Borrower's assistance, and as part of such assistance, the Borrower shall make available to the Participating Regions a part of the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein and herein set forth and the following additional terms have the following meanings:

(a) "Agency Agreement" means the agreement between the MOF and FER, referred to in Section 3.02 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Agency Agreement;

(b) "FER" means the Non-Commercial Foundation for Enterprise Restructuring and Financial Institutions Development, a legal entity organized and established pursuant to the Borrower's law "On Non-Commercial Organizations", dated January 12, 1996, and operating on the basis of its charter dated July 5, 1996, as amended on June 2, 1997, and registered with the Borrower's Ministry of Justice on July 27, 1997, and having a Board of Supervisors whose members include representatives of the MOF and MIST, or any successor or successors thereto;

(c) "MIST" means the Borrower's Ministry of Industry, Science and Technologies, or any successor or successors thereto;

(d) "MNR" means the Borrower's Ministry of Natural Resources, or any successor or

successors thereto;

(e) "MOF" means the Borrower's Ministry of Finance, or any successor or successors thereto;

(f) "Operational Manual" means a manual, satisfactory to the Bank, to be adopted by the FER, setting forth procedures and rules related to Project implementation, as the same may be amended from time to time;

(g) "Part B Regional Project Implementation Agreements" means the agreements to be entered between the FER and MIST, and the Sub-borrowing Regions, in accordance with Section 3.02 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements to the Part B Regional Project Implementation Agreements; and "Part B Regional Project Implementation Agreement" means each and any such agreement;

(h) "Participating Regions" means the subjects of the Borrower selected by the Borrower to carry out Part A of the Project, in accordance with the eligibility criteria set forth in paragraph 7 of Schedule 5 to this Agreement, and acceptable to the Bank, and "Participating Region" means each and any such region;

(i) "Project Monitoring Indicators" means the indicators developed by the Borrower, and satisfactory to the Bank, to monitor and evaluate, on ongoing basis, the carrying out of the Project and the achievement of Project objectives, referred to in paragraph 1 of Schedule 5 to this Agreement, and set forth in the Annex to Schedule 5 to this Agreement.

(j) "PMR" means a project management report referred to in Section 4.01 (d) (ii) of this Agreement, and prepared in accordance with Section 4.02 of this Agreement;

(k) "Regional Supervisory Committees" means, collectively, the regional supervisory committees established by the Participating Regions, and referred to in paragraph 8 of Schedule 5 to this Agreement, or any successor or successors thereto; and "Regional Supervisory Committee" means each and any such committee;

(l) "MNR-FER Project Implementation Support Agreement" means the agreement between the MNR and FER referred to in Section 3.02 (b) of this Agreement, as the same may be amended from time to time, and such terms includes all schedules and agreements supplemental to the MNR-FER Project Implementation Support Agreement;

(m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(n) "Sub-borrowing Regions" means the subjects of the Borrower selected by the Borrower to carry out Part B of the Project from among the Participating Regions, in accordance with the eligibility criteria set forth in Part B of Schedule 6 to this Agreement, and acceptable to the Bank, and "Sub-borrowing Region" means each and any such region;

(o) "Subsidiary Loans" means loans made or proposed to be made by the Borrower to the Sub-borrowing Regions out of the proceeds of the Loan in connection with Part B of the Project, under the Subsidiary Loan Agreements, and referred to in Section 3.02 (c) of this Agreement;

(p) "Subsidiary Loan Agreements" means the agreements to be entered between the Borrower, represented by the MOF, and the Participating Regions, in accordance with Section 3.02 (c) of this Agreement, as the same may be amended from time to time, and such terms includes all schedules and agreements supplemental to the Subsidiary Loan Agreements; and "Subsidiary Loan Agreement" means each and any such agreement; and

(q) "Supervisory Committee" means the inter-ministerial Project supervisory committee established by the Borrower, and whose members include representatives of the MIST, MNR, MOF and other parties approved by the Borrower and the Participating Regions, and referred to in paragraph 2 of Schedule 5 to this Agreement, or any successor or successors thereto.

Section 1.03. Each reference in the General Conditions to the "Project implementation entity" shall be deemed as a reference to the FER.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to sixty million Dollars (\$60,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan; and (ii) amounts paid (or if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Sub-borrowing Region under a Subsidiary Loan to meet the reasonable cost of goods, works and services required under Part B of the Project, in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account (the Special Account) in a commercial bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2005, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of the said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn

and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i)	"Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
(i i)	"Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
(iii)	"LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
(i v)	"LIBOR Total Spread" means, for each Interest Period: (A) three-fourth of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on April 15 and

October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project and, to this end, shall carry out the Project, primarily through the MNR, MOF and MIST, with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental practices, and shall cause the Participating Regions to carry out Part A of the Project, and cause the Sub-borrowing Regions to carry out Part B of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall:

(a) carry out the Project, cause the Participating Regions to carry out Part A of the Project and cause the Sub-borrowing Regions to carry out Part B of the Project, in accordance with the Implementation Program set forth in Schedule 5 to this Agreement;

(b) through the MOF, enter into an agency agreement (the Agency Agreement) with the FER, and, through the MNR, enter into a project implementation support agreement (the MNR-FER Project Implementation and Support Agreement), both under terms and conditions satisfactory to the Bank, which shall include, but not be limited to the following: (i) scope of rights and responsibilities, and description of activities to be carried out by the FER during the execution of the Project, consistent with Schedule 5 to this Agreement, the MNR-FER Project Implementation Support Agreement; (ii) staffing requirements to be fulfilled by the FER; (iii) basis of the FER financing related to expenditures incurred in connection with its responsibilities and activities under the Project; and (iv) reporting, accounting and auditing requirements;

(c) for the purposes of Part B of the Project: (i) relend, through the MOF, the proceeds of the Loan allocated from time to time to Categories (1) (b), (2) (b) and (3) (b) of the table set forth in paragraph 1 of Schedule 1 to this Agreement to the Sub-borrowing Regions (the Subsidiary Loans), under subsidiary loan agreements (the Subsidiary Loan Agreements) to be entered into between the Borrower and the Sub-borrowing Regions, under the procedures and with terms and conditions which shall have been approved by the Bank, which shall comply with procedures set forth in Part A and include the terms and conditions set forth in Part C of Schedule 6 to this Agreement; and (ii) enter, through the MIST and FER, into a regional project implementation agreement (the Part B Regional Project Implementation Agreement) with each Sub-borrowing Region; and

(d) exercise its rights under the Agency Agreement, MNR-FER Project Implementation Support Agreement, Subsidiary Loan Agreements and Part B Regional Project Implementation Agreements, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower not assign, amend, abrogate or waive the Agency Agreement, MNR-FER Project Implementation Support Agreement,

Subsidiary Loan Agreements and Part B Regional Project Implementation Agreements, or any provision thereof.

Section 3.03. Except as the Bank shall otherwise agree, procurement of goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the FER to maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause the FER to:

(i) have its records, accounts and financial statements (balance sheet, statements of sources and uses of funds, and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year so audited, and (B) an opinion on such statements, records and accounts, and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall cause the FER to:

(i) maintain, in accordance with paragraph (a) of this Section, records and separate

accounts reflecting such expenditures;

- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
 - (iii) enable the Bank's representatives to examine such records.
- (d) The Borrower shall cause the FER to:
- (i) have the records and accounts referred to in paragraph (c) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with auditing principles consistently applied, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six (6) 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, including a separate opinion by said auditors on the project management reports (PMRs) submitted during such fiscal year, and 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; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. The Borrower shall cause the FER to prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, a PMR for such period, which:

- (a)
 - (i) sets forth actual sources and uses of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and
 - (ii) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (b)
 - (i) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and
 - (ii) explains variances between the actual and previously forecast implementation targets; and
- (c) sets forth the status of procurement under the Project and expenditures under contracts

financed out of the proceeds of the Loan, as at the end of the period covered by said report.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) the Agency Agreement or MNR-FER Project Implementation Support Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the FER to carry out the Project; and

(b) the FER shall have failed to perform any of its obligations under the Agency Agreement, MNR-FER Project Implementation Support Agreement, or Part B Project Implementation Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified, namely the events specified in Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Agency Agreement has been executed on behalf of the Borrower and FER;

(b) the MNR-FER Project Implementation Support Agreement has been executed on behalf of MNR and FER;

(c) the Operating Manual has been adopted by the FER; and

(d) the auditors referred to in Section 4.01 (b) (i) of this Agreement have been appointed.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Agency Agreement has been duly authorized by the MOF and FER, and is legally binding upon the MOF and FER in accordance with its terms; and

(b) that the MNR-FER Project Implementation Support Agreement has been duly authorized by the MNR and FER, and is legally binding upon MNR and FER in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for

the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance or Deputy Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Ilyinka Street 9
103097 Moscow
Russian Federation

Telex:

112008

For the Bank:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INTBAFRAD 248423 (MCI) or
Washington, D.C. 64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

RUSSIAN FEDERATION

By /s/ Yuri V. Ushakov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shigeo Katsu

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

	<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1)	Consultants' services, including training:		
	(a) for Part A of the Project	4,900,000	100%
	(b) for Part B of the Project	3,000,000	100%
(2)	Goods:		
	(a) for Part A of the Project	27,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost); and 80% of local expenditures for other items procured locally
	(b) for Part B of the Project	19,000,000	
(3)	Works, including technical services:		
	(a) for Part A of the Project	850,000	80%
	(b) for Part B of the Project	250,000	80%
(4)	Project Management Costs	3,000,000	100%

(5)	Fee	600,000	Amount due pursuant to Section 2.04 of this Agreement
(6)	Unallocated	1,000,000	
	TOTAL	<u>60,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;

(c) the term "Project Management Costs" means reasonable incremental expenses: (i) incurred by the Borrower on account of Project implementation, management and monitoring, including the cost of: (A) transportation and travel, (B) training civil servants of the Borrower and FER staff, (C) attendance of seminars and conferences, and (D) communication; and (ii) incurred by the FER on account of Project implementation, management and monitoring, including the cost of: (A) office goods and supplies, (B) maintenance of office equipment, systems and facilities, (C) insurance of property, (D) rent and utilities, (E) communication, (F) transportation and travel, (G) FER consultants' services, (H) FER staff salaries, including qualified social charges, (I) training of FER staff, (J) attendance of seminars and conferences, (K) Project-related auditing services, and supervision costs, and (L) other ordinary, reasonable and necessary activities directly related to Project implementation, management and monitoring; provided, however, that the expenditures hereunder shall be set forth in approved annual budgets of the FER, adopted pursuant to the Agency Agreement, MNR-FER Project Implementation Support Agreement, Operating Manual, and paragraph 6 of Schedule 5 to this Loan Agreement; and

(d) the term "training" means: (i) fees of consultants, including educational or other institutions and organizations, that provide training services; and (ii) cost of study tours, cost of workshops, and related travel expenditures, and boarding, lodging and per diem allowances of Project beneficiaries.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$6,000,000 may be made in respect of Categories (1) (a), (2) (a), (3) (a) and (4) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after October 15, 1999.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods, under contracts costing less than \$200,000 equivalent each; (b) works, under contracts costing less than \$100,000 equivalent each; (c) services provided by firms, under contracts costing less than \$100,000 equivalent each, services provided by individuals, under contracts costing less than \$20,000 equivalent each; and (d) project management costs, under contracts costing less than \$50,000 equivalent each, all under such terms and conditions as the Bank shall

specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve public sector management of the Borrower's forests, strengthen the enabling environment for private sector involvement in forest utilization in the Participating Regions, and replicate policy reforms and improved forest management practices outside of the Participating Regions.

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

Part A: Sustainable Public Forest Management

Development of forest policy reforms and implementation of an improved legal and regulatory framework in the forest sector, improvement in the collection, organization and dissemination of forest-related information and forest management planning techniques, improvement in forest fire and pest management techniques, and regeneration of forests in the Participating Regions, and dissemination of best practices and information outside of the Participating Regions, through the financing of goods, works and services.

Part B: Institutional Strengthening of Forest Enterprises

Training and re-training of managers and staff of forest industry enterprises in the Sub-Borrowing Regions in the use of modern equipment for forest harvesting, timber processing and non-wood forest products processing, and testing and implementation of modern forest utilization and forest enterprise management techniques in the Sub-Borrowing Regions, through the financing of goods, works and services.

Part C: Project Management and Implementation

Assistance in the management and implementation of the Project, including procurement related activities, training of the staff of the MNR and Participating Regions in the management and implementation of the Project, design and implementation of a system of financial management and accounting, preparation of the accounts and financial statements referred to in Section 4.01 of this Agreement, audit of the accounts and financial statements referred to above, and institutional strengthening of the FER, through the financing of project management costs, including external auditing services.

* * *

The Project is expected to be completed by March 31, 2005.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
On each April 15 and October 15 beginning October 15, 2005 through April 15, 2017	2,500,000

** The figures in this column represent the amount in Dollars to be repaid, except as provided in Sections 4.04 (d) of the General Conditions.*

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995, revised in January and August 1996, September 1997, and January 1999 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works, including technical services, estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$900,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$2,600,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract procured under Part B and Part C.1 hereof, and the first two contracts procured under each Part C.2, Part C.3 and Part C.4 hereof, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997, revised in September 1997 and January 1999 (the Consultant Guidelines), and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following shall apply to consultants' services to be procured under contracts awarded in

accordance with the provisions of the preceding paragraph. The short list of consultants for services for local workshops and seminars, and services under Part A of the Project, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants of the Borrower in accordance with the provisions of paragraph 2.7 of the Consultants' Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for organization and conducting of seminars estimated to cost less than \$100,000 equivalent each, up to an aggregate amount of \$330,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. Project Monitoring and Evaluation. (a) The Borrower shall monitor and evaluate on an ongoing basis, in accordance with the indicators (the Project Monitoring Indicators) set forth in the Annex to this Schedule 5, the carrying out of the Project and the achievement of the objectives thereof.

(b) For each year of Project implementation, the Borrower shall, through the FER, prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph 1, on the progress achieved in the carrying out of the Project during the preceding year, and setting out the measures recommended to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof during the period following such date.

(c) For each year of Project implementation, the Borrower, through the Supervisory Committee, shall review with the Bank, by April 30 or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph 1, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Bank views on the matter.

2. Supervisory Committee. The Supervisory Committee shall be responsible for the overall direction and strategic oversight of the Project, selection of the Participating Regions, and approval of annual work plans and budget related to Project implementation.

3. MNR. The MNR shall, with the assistance of the FER, be responsible for the implementation and monitoring of Part A of the Project, and the achievement of the objectives thereof, and, jointly with the Supervisory Committee and MOF, implementation and monitoring of Part C of the Project.

4. MOF. The MOF, jointly with the Supervisory Committee, shall be responsible for the selection of the Sub-borrowing Regions, and for the Subsidiary Loans to the Sub-borrowing Regions, and, jointly with MNR, shall be responsible for the implementation and monitoring of Part C of the Project.

5. MIST. The MIST shall steer the work of the Supervisory Committee and, through the participation in the Supervisory Committee, shall be responsible for strategic oversight and supervision of the Project, inter-ministerial coordination and, jointly with the MOF and FFS, selection of Participating Regions.

6. FER. The Borrower shall ensure that the FER shall: (a) be responsible for day-to-day administrative aspects of Project, including financial management, procurement, disbursement, engagement of outside auditors and preparation of appropriate auditing reports and their dissemination to relevant agencies of the Borrower and to the Bank, preparation of progress reports and annual reports in respect of or related to the Project; (b) assist the MNR in the overall coordination of Part A of the Project; (c) assist the Participating Regions in the implementation of Part A of the Project and assist the Sub-borrowing Regions in the implementation of Part B of the Project, implemented on their respective territories; and (d) for each year during the implementation of the Project, prepare and furnish for approval to the Supervisory Committee and Bank a proposed annual budget, annual work plan, and annual procurement plan, all in such detail as shall be reasonably requested, and which shall include information concerning staffing of the FER and expenditures to be financed in connection with FER functions under the Project. The Borrower shall ensure that until the completion of the Project, the FER

maintains an implementation unit which at all times functions in a manner, with qualified staff and consultants, and with facilities and other resources necessary for the Project and satisfactory to the Bank. The Borrower shall ensure that the FER carries out its activities and responsibilities under the Project in accordance with the above annual work and procurement plans, budget, Operating Manual, Agency Agreement, and MNR-FER Project Implementation Agreement.

7. Participating and Sub-borrowing Regions. The Borrower shall ensure that the Participating Regions shall be responsible for the implementation and monitoring of the regional components of Part A of the Project, and that the Sub-borrowing Regions shall be responsible for the implementation and monitoring of Part B of the Project, all with technical assistance to be provided by the FER. The Borrower shall select the Participating Regions based on the size and importance of forest resources of the proposed Participating Region and the level of commitment to policy and management reforms to be undertaken by the proposed Participating Region in accordance with the overall Project objectives and Part A of the Project. The Borrower shall select the Sub-borrowing Regions in accordance with the selection criteria set forth in Part B of Schedule 6 to this Loan Agreement.

8. Regional Supervisory Committees. The Borrower shall ensure that the Regional Supervisory Committees shall be responsible for the overall direction and strategic oversight of the Project at the regional level, coordination with the appropriate authorities of the Participating Regions, and approval of annual work plans and budgets related to regional aspects of Project implementation.

Annex

Project Monitoring and Evaluation Indicators

1. Significant increase in forest revenue.
2. Significant increase in forest area covered by improved information and management planning systems.
3. Significant increase in forest area covered by improved fire and pest monitoring and management system.
4. Significant increase in forest area regenerated with improved technology.
5. Significant increase in the number of persons trained under Part B of the Project.
6. Procurement, disbursement, reporting and Project management undertaken according to an agreed upon implementation plan and within budget.

SCHEDULE 6

Procedures, Eligibility Criteria, and Terms and Conditions of Subsidiary Loan Agreements and Part B Regional Project Implementation Agreements

Part A: Procedures

1. No expenditures for goods, works and services required under Part B of the Project shall be eligible for financing out of the proceeds of the Loan unless appropriate Subsidiary Loan shall have been approved by the Bank, and a Subsidiary Loan Agreement and Part B Regional Project Implementation Agreement have been executed among the Borrower, FER, and Sub-borrowing Region, as described below.
2. When presenting a Subsidiary Loan to the Bank for approval, the Borrower shall furnish to the Bank, in form satisfactory to the Bank: (a) a draft Subsidiary Loan Agreement and draft Part B Regional Project Implementation Agreement; (b) description of the Sub-borrowing Region to which the Subsidiary Loan is proposed to be made, specifically information concerning the eligibility criteria; (c) a feasibility and appraisal report related to the proposed activities under Part B of the Project and to be financed by the Subsidiary Loan, including legal, technical, financial, operational, procurement, and environmental aspects; and (d) such other information as the Bank shall reasonably request.
3. Following the approval of the proposed Subsidiary Loan by the Bank, the Borrower and Sub-borrowing Region shall execute the draft Subsidiary Loan Agreement and Part B Regional Project Implementation Agreement referred to in paragraph 2 (a) of Part A of this Schedule 6, and giving the Borrower rights adequate to protect the interests of the Bank and the Borrower, and containing, *inter alia*, the terms and conditions set forth in Part C of this Schedule 6.
4. Applications and requests made by the Borrower pursuant to the provisions of paragraph 2 shall be presented to the Bank no later than six (6) months following the date of effectiveness of this Agreement.

Part B: Eligibility Criteria

1. Sub-borrowing Regions shall be selected by the Borrower based on the following selection and eligibility criteria:
 - (a) size and importance of forest resources of the proposed Sub-borrowing Region;
 - (b) level of commitment to policy and management reforms to be undertaken by the proposed Sub-borrowing Region in accordance with the overall Project objectives and Part B of the Project; and
 - (c) overall financial status of the proposed Sub-borrowing Region and its ability to repay the Subsidiary Loan.

Part C: Terms and Conditions of the Subsidiary Loan Agreement and Part B Regional Project

Implementation Agreements

1. Each Subsidiary Loan shall be made under a Subsidiary Loan Agreement entered into by the Borrower, represented by the MOF, and the Sub-borrowing Region, and Part B Regional Project Implementation Agreement, entered by the Borrower, represented by the MIST, and FER, and the Sub-borrowing Region.

2. Each Subsidiary Loan Agreement and Part B Regional Project Implementation Agreement shall provide that the Subsidiary Loan shall:

(a) be denominated and be repayable (principal and interest) in U.S. Dollars equivalent;

(b) be repayable in eleven (11) years, including a three (3) year grace period;

(c) carry an interest rate on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time equal to the interest rate specified in Section 2.06 of this Agreement, plus a margin (surcharge) of 1.5 percent, a commitment charge on the amount of the Subsidiary Loan not withdrawn from time to time equal to the percentage of the commitment charge paid by the Borrower to the Bank pursuant to Section 2.05 of this Agreement, and a fee equal to the fee specified in Section 2.4 of this Agreement; and

(d) be cancelable by the Sub-borrowing Region.

3. Each Subsidiary Loan Agreement and Part B Regional Project Implementation Agreement shall require, inter alia, that the Sub-borrowing Region:

(a) furnish evidence acceptable to the Borrower that the Subsidiary Loan Agreement and Part B Regional Project Implementation Agreement have been executed, and are valid and legally binding upon the Sub-borrowing Region.

(b) carry out Part B of the Project with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with sound technical, financial, environmental, commercial and managerial standards;

(c) register separately the operations, resources and expenditures related to the Subsidiary Loan;

(d) have the records, accounts and financial statements related to the Subsidiary Loan for each fiscal year audited (by auditors engaged by the FER), in accordance with appropriate auditing principles consistently applied, by independent auditors satisfactory to the Borrower and the Bank, and furnish to the Borrower not later than six (6) months after the end of each such year certified copies of the financial statements for such year so audited and the report of such audit by the auditors of such scope and such detail as the Borrower and the Bank shall have reasonably requested;

(e) procure the goods, works and services to be financed by the Subsidiary Loan in accordance with the provisions of Schedule 4 to this Agreement, and to use such goods, works and services exclusively in the carrying out of Part B of the Project;

(f) allow the Borrower, by itself or jointly with representatives of the Bank, if the Bank shall

so request, to inspect such goods and the sites, works, plants and construction financed by the Subsidiary Loan, the operation thereof, and any relevant records and documents;

(g) take out and maintain, or, when applicable, ensure that third parties receiving goods financed out of the proceeds of the Loan maintain, with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including insurance covering hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Subsidiary Loan to the place of use or installation, any indemnity thereunder to be made to replace or repair such goods;

(h) assume the foreign exchange risk between the Dollar and the currency of the Borrower;

(i) contribute, as co-financing, funds sufficient to pay for taxes, levies and duties related to goods, works and services to be procured under the Subsidiary Loan;

(j) open, by the date on which the Sub-borrowing Region shall enter into the Subsidiary Loan Agreement and Part B Regional Project Implementation Agreement, and thereafter maintain, a separate account (the Sub-borrowing Region Project Account) in a commercial bank under terms and conditions satisfactory to the Borrower, including protection against set-off, seizure, or attachment, and deposit and maintain in such Sub-borrowing Region Project Account an amount reasonably sufficient to pay for expenditures to be incurred by the Sub-borrowing Region under Part B of the Project.

(k) utilize the amounts deposited into the said Sub-borrowing Region Project Account exclusively to finance the respective costs of carrying out Part B of the Project;

(l) appoint representatives to serve on the Regional Supervisory Committee;

(m) provide assistance to and cooperate with the FER with respect to the FER's procurement, disbursement, accounting and reporting functions under Part B of the Project;

(n) assist the FER to prepare for submission to the Borrower, in a manner and by a date satisfactory to the Borrower and the Bank, a completion report; and

(o) give the Borrower the right to suspend or terminate the right of the Sub-borrowing Region to the use of the proceeds of the Subsidiary Loan upon failure by such party to perform its obligations under the Subsidiary Loan Agreement and Part B Regional Project Implementation Agreement.

4. Each Subsidiary Loan Agreement shall be subject to the following condition of effectiveness, namely that a Sub-borrowing Region Project Account has been opened and an appropriate amount equivalent to the expenditures projected to be required and to be co-financed by the Sub-borrowing Region has been deposited.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, services, works and incremental operating costs required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to US\$1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to US\$750,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of US\$3,000,000.

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

3. After the Bank has received evidence acceptable 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) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for 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 Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower 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 Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule 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 Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by 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 Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower 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 Schedule, 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 Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section 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 Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. 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 in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower 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 Borrower 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 Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the

funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

