

CONFORMED COPY

LOAN NUMBER 7093-PNG

Loan Agreement

(Forestry and Conservation Project)

between

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 20, 2001

LOAN NUMBER 7093 - PNG

LOAN AGREEMENT

AGREEMENT, dated December 20, 2001, between THE INDEPENDENT STATE OF PAPUA NEW GUINEA (the Borrower) and INTERNATIONAL BANK FOR

PAPUA NEW GUINEA (the Borrower) and 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 Parts A, C and D of the Project;

(B) the Borrower and the PNG Mama Graun Conservation Trust Fund have requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of part of Part B of the Project, the Bank has determined that such assistance would be in accordance with the provisions of Resolution No. 94-2 of the Executive Directors of the Bank, dated May 24, 1994, establishing the GEF Trust Fund, and by an agreement of even date herewith among the Borrower, the Bank acting as an Implementing Agency of the GEF, and the PNG Mama Graun Conservation Trust Fund (the PNGMGCTF-GEF Trust Fund Grant Agreement), GEF is agreeing to provide such assistance in an aggregate principal amount equivalent to eleven million seven hundred fifty thousand Special Drawing Rights (SDR 11,750,000) (the GEF Grant); and

(C) the Borrower has also requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of part of Parts A and D of the Project, the Bank has determined that such assistance would be in accordance with the provisions of Resolution No. 94-2 of the Executive Directors of the Bank, dated May 24, 1994, establishing the GEF Trust Fund, and by an agreement of even date herewith between the Borrower and the Bank, acting as an Implementing Agency of the GEF, (the GEF Trust Fund Grant Agreement), GEF is agreeing to provide such assistance in an aggregate principal amount equivalent to one million five hundred sixty thousand Special Drawing Rights (SDR 1,560,000) (the GEF Grant); 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 and in the GEF Trust Fund Grant Agreement of even date herewith between the Borrower and the Bank, acting as an Implementing Agency of the GEF, and in the PNGMGCTF-GEF Trust Fund Grant Agreement of even date herewith between the Bank, acting as an Implementing Agency of the GEF, and the PNG Mama Graun Conservation Trust Fund;

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 Fixed-Spread Loans" of the Bank dated September 1, 1999, (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the

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 set forth and the following additional terms have the following meanings:

(a) “Beneficiary” means an individual, community or privately owned enterprise established and operating in The Independent State of Papua New Guinea that meets the eligibility criteria set forth in the PNGMGCTF Operations Manual, to which the PNGMGCTF-Recipient proposes to make, or has made a Grant or Sub-grant, as the case may be, and the term “Beneficiaries” means, collectively, more than one Beneficiary.

(b) “Conservation Management Areas” and the acronym “CMA” mean the use of forest land in small-scale sustainable development activities geared towards the establishment of forest conservation areas.

(c) “Disbursed Amount” means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in said Interest Period.

(d) “Executing Agency Trust Account” means the account in Kina open and maintained in a commercial bank pursuant to the provisions of Section 3.03 of this Agreement.

(e) “FCP Supply and Tender Board” means the special procurement board to be established and maintained pursuant to the provisions of paragraph 1(b) of Schedule 5 to this Agreement, and any successors thereto.

(f) “Fiscal Year” and the acronym “FY” mean the twelve (12)-month period corresponding to any of the Borrower’s financial years, which period commences on January 1 and ends on December 31 in each calendar year, and the term “Fiscal Years” means, collectively, each of said Fiscal Year.

(g) “Forestry Act” means the Borrower’s comprehensive legislation on forestry activities enacted in 1991, as amended to the date of this Agreement.

(h) “GEF Trust Fund Grant Agreement” means the agreement of even date herewith between the Borrower and the Bank for carrying out part of Parts A and D of the Project, as such agreement may be amended from time to time.

(i) “Grant” means a grant in Kina made or proposed to be made by the PNGMGCTF to a Beneficiary for a Sub-project out of the investment income obtained from the proceeds of the PNGMGCTF-GEF Grant allocated from time to time to Category (5) of Schedule 1 to the PNGMGCTF-GEF Trust Fund Grant Agreement, and the term “Grants” means, collectively, all of such Grants.

(j) “Kina” means the currency of The Independent State of Papua New Guinea.

(k) “Landowner Decision and Organization Unit” means the unit established within the Borrower’s Department of Lands and Physical Planning pursuant to the provisions of

the Borrower's Department of Lands and Physical Planning pursuant to the provisions of paragraph 4 of Schedule 5 to this Agreement.

(l) "Maturity Fixing Date" means, for each Disbursed Amount, the date on which the amortization schedule for said Disbursed Amount is established, such date being the first day of the Interest Period next following the Interest Period in which said Disbursed Amount is withdrawn.

(m) "OEC" means the Borrower's Office of Environment and Conservation, and any successors thereto.

(n) "PNGFA" means the Borrower's PNG Forest Authority, and any successors thereto.

(o) "PNG Mama Graun Conservation Trust Fund" and the acronym "PNGMGCTF" mean a non-profit, non-stock organization organized and operating under the laws and regulations of the Borrower, in particular the Companies Act 1997, and its Constitution dated March 18, 2000, its Deed dated May 12, 2000, and the Certificate of Incorporation issued by the Registrar of Companies on May 10, 2000, to provide an ongoing, reliable source of in-country funding to finance ecologically based forestry development enterprises, and forestry biodiversity conservation and ecologically sustainable development Sub-projects, through, inter alia, Sub-grants, and any successor thereto.

(p) "PNGMGCTF Operations Manual" means the operations manual setting forth the policies and procedures for funding Sub-projects under Part B of the Project, adopted by the PNG Mama Graun Conservation Trust Fund on May 12, 2000, as amended on November 13, 2000, as the same may be further amended from time to time.

(q) "PNGMGCTF-GEF Trust Fund Grant Agreement" means the agreement of even date herewith between the Bank and the PNG Mama Graun Conservation Trust Fund for carrying out part of Part B of the Project, as such agreement may be amended from time to time, and the term "PNGMGCTF-GEF Grant" means the grant providing therefor.

(r) "Project Management Unit" and the acronym "PMU" mean the unit established on October 26, 2000, in the Borrower's Department of National Planning and Monitoring.

(s) "Project Oversight Committee" means the committee established and maintained by the Borrower pursuant to the provisions of paragraph 1(a) of Schedule 5 to this Agreement.

(t) "PNGMGCTF-Recipient" means the PNG Mama Graun Conservation Trust Fund.

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

(v) "Sub-grant" means a grant in Kina made or proposed to be made by the PNGMGCTF to a Beneficiary for a Sub-project out of the proceeds of the PNGMGCTF-GEF Grant made available to the PNGMGCTF pursuant to the provisions of the PNGMGCTF-GEF Trust Fund Grant Agreement, allocated from time to time to Category (4) of Schedule 1 to said Grant Agreement, and the term "Sub-grants" means, collectively, all of such Sub-grants.

(w) "Sub-grant Agreement" means the agreement to be entered into between the PNGMGCTF-Recipient and a Beneficiary for financing a Sub-project out of the proceeds of a Grant or Sub-grant pursuant to provisions of the PNGMGCTF Operations Manual, as the same may be amended from time to time, and such term includes all schedules supplemental to the Sub-grant Agreement, and the term "Sub-grant Agreements" means, collectively, all of such Sub-grant Agreements.

(x) "Sub-project" means, a specific development project under Part B of the Project to be carried out by a Beneficiary utilizing the proceeds of a Grant or Sub-grant, and the term "Sub-projects" means, collectively, all of such Sub-projects.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to the PNG Mama Graun Conservation Trust Fund.

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 this Agreement, an amount equal to seventeen million three hundred sixty thousand Dollars (\$17,360,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for Parts A, C and D of the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of Parts A, C and D of the Project open and maintain in Kina a special deposit account in a commercial 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 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008, 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan. The Borrower agrees that 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 such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

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

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
 - (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
 - (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end:

- (i) shall carry out Part A of the Project through the Department of National Planning and Monitoring, Part C of the Project through the PNG Forest Authority, and Part D of Project through the Office of Environment and Conservation, with due diligence and efficiency and in conformity with appropriate forestry, environment, managerial, financing, administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such parts of the Project; and
- (ii) without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall ensure that the PNG Mama Graun Conservation Trust Fund shall perform in accordance with the provisions of the Global Environment Facility Trust Fund Grant Agreement all the obligations of the PNG Mama Graun Conservation Trust Fund therein set forth, including the making of Sub-grants pursuant to the provisions of the PNGMGCTF Operations Manual for purposes of carrying out of Part B of the Project, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the PNG Mama Graun Conservation Trust Fund to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Parts A, C and D of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A, C and D of 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 3.03. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, the Borrower shall:

(a) open and maintain an account in Kina in a commercial bank, under terms and conditions satisfactory to the Bank, for purposes of channeling in a timely manner the Borrower's counterpart financing for the costs of goods and services required to carrying out Parts A, C and D of the Project not financed out of the proceeds of the Loan; and

(b) deposit into its Executing Agency Trust Account in Kina, not later than the last day of each calendar quarter, amounts sufficient to cover counterpart funding for estimated disbursements under the Project for the succeeding three-month period.

Section 3.04. For the purposes of Section 9.08 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

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 for the future operation of the Project; 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 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 of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account as applicable for each fiscal year audited, in accordance with appropriate 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 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 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:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan 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 paragraph (b) of this Section 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than June 30, 2002, or such later date as the Bank shall agree, to prepare semi-annual Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications 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

(B) 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;

- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and

(B) explains variances between the actual and previously forecast implementation targets; and

- (iii) 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.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period, in a form and substance satisfactory to the Bank.

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 PNG Mama Graun Conservation Trust Fund shall have failed to

perform any of its obligations under the PNGMGCTF-GEF Trust Fund Grant Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that the PNG Mama Graun Conservation Trust Fund will be able to perform its obligations under the PNGMGCTF-GEF Trust Fund Grant Agreement.

(c) The Borrower's Forestry Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of: (i) the Borrower to perform its obligations under this Agreement or under the GEF Trust Fund Grant Agreement, and (ii) the PNG Mama Graun Conservation Trust Fund to perform any of its obligations under the PNGMGCTF-GEF Trust Fund Grant Agreement.

(d) The PNGMGCTF Operations Manual shall have been amended, suspended, abrogated, repealed or waived without the prior concurrence of the Bank, and such amendment, suspensions, abrogation, repeal or waiver affects materially and adversely the ability of: (i) the Borrower to perform its obligations under this Agreement, and (ii) the PNG Mama Graun Conservation Trust Fund to perform any of its obligations under the PNGMGCTF-GEF Trust Fund Grant Agreement.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the PNG Mama Graun Conservation Trust Fund or for the suspension of its operations.

(f) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional events are specified:

(a) The event specified in paragraph (a) Section 5.01 of this Agreement shall occur and shall continue for a period of 45 days after notice thereof shall have been given by the Bank to the Borrower.

(b) Any of the events specified in paragraphs (c), (d) and (e) of Section 6.01 of this Agreement shall occur.

(c) The event specified in paragraph (f)(i) of Section 5.01 of this Agreement shall occur, subject to the provisions of paragraph (f)(ii) of that Section.

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 PNGMGCTF-GEF Trust Fund Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the PNG Mama Graun Conservation Trust Fund to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled;

(b) the GEF-Trust Fund Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled;

(c) the Project Oversight Committee has been established pursuant to the provisions of paragraph 1(a) of Schedule 5 to this Agreement;

(d) the FCP Supply and Tender Board has been established pursuant to the provisions of paragraph 1(b) of Schedule 5 to this Agreement;

(e) the PMU has retained the services of a procurement specialist with qualifications and terms and conditions satisfactory to the Bank, such procurement specialist to be selected in accordance with the provisions set forth in paragraph 2, Part C, Section II of Schedule 4 to this Agreement;

(f) the Executing Agency Trust Account has been opened pursuant to the provisions of Section 3.03 of this Agreement, and with an initial amount of \$250,000.00 equivalent;

(g) the Borrower, through PNGFA, has adopted a time-table, satisfactory to the Bank, to implement the recommendations of the review of all timber harvesting operations pending approval as of the date of this Agreement pursuant to the provisions of paragraph 8 of Schedule 5 to this Agreement;

(h) the Borrower, through PNGFA, has adopted a time-table, satisfactory to the Bank, for the employment of consultants to undertake the review of all on-going timber

harvesting operations pursuant to the provisions of paragraph 9 of Schedule 5 to this Agreement;

(i) the Borrower has adopted arrangements to review new logging permit applications pursuant to the provisions of paragraph 10 of Schedule 5 to this Agreement; and

(j) the Landowner Decision and Organization Unit has been established pursuant to the provisions of paragraph 4 of Schedule 5 to this Agreement.

Section 6.02. 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 for Finance and Treasury 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 for Finance and Treasury
Department of Finance and Treasury
P.O. Box 710
Waigani
NCD, Papua New Guinea

Cable address:

Facsimile:

TREASURER
Boroko

(675) 3288213

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:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

202-522-1590
202-522-3308

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.

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

By /s/ Nagora Bogan

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jemal-ud-din Kassum

Authorized Representative

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) Works under Parts C and D of the Project	160,000	50%
(2) Goods under Parts A, C and D of the Project	1,450,000	100% of foreign expenditures, 100 % of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally

(3)	Services under Parts A, C and D of the Project:		
	(a) Consultants	7,370,000	100%
	(b) Training, workshops, conferences and seminars	1,580,000	100%
(4)	Incremental operating costs	5,290,000	100% in FY 2002; 90% in FY 2003; 75% in FY2004; 50% in FY 2005; 20% in FY 2006; and 10% in FY 2007 and thereafter

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(5) Fee this Agreement	173,600	Amount due under Section 2.04 of
(6) Unallocated	1,336,400	
	=====	
TOTAL	17,360,000	

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 or services 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 or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”; and

(c) the term “incremental operating costs” means reasonable expenditures directly related to the Project, incurred by the Borrower (which expenditures would not have been incurred absent the Project), including expenditures for the cost of allowances, local travel and per-diem for the staff of the Project Management Unit, office costs, including rental, utilities, maintenance and repairs, and office equipment for the Project Management Unit, and, mapping and information and dissemination costs, but excluding salaries.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) any Category set forth in the table in paragraph 1 of this Schedule unless and until the Borrower shall have paid to the Bank in full the front-end fee referred to in Section 2.04 of this Agreement; and

(b) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$250,000, may be made in respect of Categories (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 November 29, 2000.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$50,000 equivalent; (b) goods under contracts costing less than \$100,000 equivalent; (c) services provided by consulting firms under contracts costing less than \$100,000 equivalent; (d) services provided by individual consultants under contracts costing less than \$50,000 equivalent; (e) training, conferences, seminars and workshops; and (f) incremental operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to improve sustainable forest resource management in The Independent State of Papua New Guinea, through (a) enhanced processes for landowner participation in forest management and conservation, (b) provision of financing to implement forest management options consistent with forest biodiversity conservation, (c) streamlined planning, monitoring and enforcement capacity of the PNG Forest Authority, and (d) strengthened environmental impact assessment and monitoring capabilities of the Office of Environment and Conservation.

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: Landowner Forest Decision-Making

1. Develop and implement processes to enhance forest landowners participation in forest management and conservation, including educational activities to improve landowner access to information, and improved institutional and legal arrangements for organizing landowner representation, regarding forest management and conservation, and provision of technical and financial assistance to implement their chosen forest development option.
2. Develop and implement Conservation Management Areas through the adoption of policies and enactment of legislation for community-initiated conservation and sustainable resource management areas on customary land.

Part B: PNG Mama Graun Conservation Trust Fund

1. Implementation by Beneficiaries of specific forest biodiversity conservation and sustainable projects, including the provision of Grants and Sub-grants and technical assistance therefor.
2. Develop and implement the PNG Mama Graun Conservation Trust Fund, including

2. Develop and implement the PNG Mama Graun Conservation Trust Fund, including provision of technical assistance, office facilities, office equipment and vehicles therefor.

Part C: Sustainable Forest Management

1. Enhance the PNG Forest Authority's capability to manage, plan, implement and monitor sustainable forest operations, including the provision of PNGFA staff training and workshops, field and office equipment, vehicles, computers and consultants' services.
2. Improvement of natural production forest management through expansion of sustained yield post harvest activities, including the provision of PNGFA staff training and workshops, field and office facilities and equipment, vehicles, computers and consultants' services.
3. Development of post harvest management activities and feasibility studies for development of plantations on degraded forest lands, including feasibility studies, development of a forest plantation strategy and testing of methodology on a pilot basis.

Part D: Environmental Assessment and Monitoring

1. Development, testing and implementing environmental impact assessments and monitoring methodologies, including development of operational manuals, OEC staff training and workshops, field and office facilities and equipment, vehicles, computers and consultants' services.
2. Designing and implementing a community-based environmental monitoring program, including training to trainers within government agencies and Non-Governmental Organizations established in PNG, and testing the approach in several pilot areas.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
15-Mar-2010	4.17%
15-Sep-2010	4.17%
15-Mar-2011	4.17%
15-Sep-2011	4.17%
15-Mar-2012	4.17%
15-Sep-2012	4.17%
15-Mar-2013	4.17%
15-Sep-2013	4.17%
15-Mar-2014	4.17%
15-Sep-2014	4.17%
15-Mar-2015	4.17%
15-Sep-2015	4.17%
15-Mar-2016	4.17%
15-Sep-2016	4.17%
15-Mar-2017	4.17%
15-Sep-2017	4.17%
15-Mar-2018	4.17%
15-Sep-2018	4.17%
15-Mar-2019	4.17%
15-Sep-2019	4.17%
15-Mar-2020	4.17%
15-Sep-2020	4.17%
15-Mar-2021	4.17%
15-Sep-2021	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

SCHEDULE 4

Procurement

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 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

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 provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(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

(a) Works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Except as provided for in paragraph 2 below, goods 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 contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Vehicles, computers and surveying equipment may be procured from the United Nations Office of Procurement Services (UNOPS) in accordance with the provisions of paragraph 3.9 of the Guidelines.

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 for: (a) works estimated to cost \$50,000 or more; and (b) goods estimated to cost \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply; provided, however, that with respect to each contract for goods to be procured in accordance with the procedures referred to in Part C. 2. above, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) 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 and 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

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.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract 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 that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may 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 for estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (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 consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, 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 the 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. The Borrower shall:

(a) establish and maintain its Project Oversight Committee chaired by the Chief Secretary to the Government (Department of the Prime Minister and National Executive Council) or his/her duly designated representative, and with representatives of the Borrower's Department of Lands and Physical Planning, Borrower's Department of National Planning and Monitoring, Borrower's Office of Environment and Conservation, PNG Forest Authority, Non-Governmental Organizations established and operating in Papua New Guinea, the Landowner Decision and Organization Unit and the PNG Mama Graun Conservation Trust Fund, responsible for planning and supervision of Project implementation, and achieving the objectives of the Project set forth in Schedule 2 to this Agreement;

(b) establish and maintain its FCP Supply and Tender Board headed by a qualified officer from the PNG Forest Authority, with representatives of the procurement specialist of the Project Management Unit, the State Solicitor and three representatives appointed by the Minister of Finance and Treasury, including two government employees and one representative from the private sector, and provided with such powers, responsibilities and funding as shall be required to undertake the procurement of goods, works and services under the Project, regardless of their source of funding, not to exceed \$500,000 equivalent per contract; and

(c) maintain the Project Management Unit headed by a qualified officer and provided with such powers, responsibilities and funding as shall be required to undertake the overall implementation of the Project.

2. The Borrower shall take all such actions as shall be necessary to:

(a) maintain at the 2000 (real) level the PNG Forest Authority's operational budget or such other level as agreed from time to time between the Borrower and the Bank. For this purpose in November of each year, commencing in November 2002, the Borrower shall, through the PNG Forest Authority, furnish to Bank, for its review and comments, the proposed budgetary allocations for the forthcoming Fiscal Year, and

(b) ensure the independence of the log exporting inspection operation.

3. The Borrower shall, by not later than June 30, 2002, issue and thereafter enforce

3. The Borrower shall, by not later than June 30, 2002, issue and thereafter enforce regulations requiring any person who is engaging in the harvesting of timber under a timber permit, timber authority or timber license or any other form of timber permits, except persons harvesting timber from plantation forests, to post a performance bond with the PNG Forest Authority for an amount representing not less than 40% of the estimated average annual operating costs for the operation in question, at minimum cut production levels, or such other amount as the Borrower and the Bank shall otherwise agree, with such bonds subject to forfeiture for non-compliance with the provisions of the Logging Code of Practice.

4. The Borrower shall, by not later than August 31, 2002, establish and thereafter maintain within the Department of Lands and Physical Planning a Landowner Decision and Organization Unit, satisfactory to the Bank, to assist landowner forest in decision making matters relating to the sustainability of their forest holdings.

5. By August 31, 2002, the Borrower, through the PNG Forest Authority, shall adopt and thereafter implement a Forest Land Use Options Strategy, satisfactory to the Bank.

6. By June 30, 2003, the Borrower shall, in consultation with the Bank, submit to Parliament for its consideration a bill enabling landowner forest groups to organize themselves as legal entities and to designate their forest landholdings as forest conservation areas, and promptly upon the enactment of the respective Act, issue the required regulations for its implementation.

7. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 1, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by August 1, 2004, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, 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 report and the Bank's views on the matter.

8. The Borrower shall: (a) adopt a time-bound action plan, satisfactory to the Bank, and shall thereafter carry out such action plan in a manner and substance satisfactory to the Bank to address the recommendations of the independent review undertaken of all logging permits pending of approval as of November 30, 2001; and (b) approve logging permit applications submitted after November 30, 2001, in accordance with the relevant provisions of such action plan. For the purposes of this paragraph the term "logging permits" means Forest Management Agreements, Timber Permits, Timber Authorities and geographic extensions to Timber Permits.

9. To determine the status of compliance with the Forestry Act, including the Logging

Code of Practice and thereafter take the required remedial actions, the Borrower shall, through PNGFA, review any on-going timber harvesting operations in the Borrower's territory which has an expiry date after December 31, 2003, or which is due to expire before that date but seeks an extension in time and which is currently calculated to have at least 15 percent of the net harvestable volume of forest resource remaining. For this purpose, the Borrower undertakes to review at least fifteen (15) operations by June 30, 2003, and the remainder by June 30, 2007. To assist PNGFA in this undertaking, PNGFA shall employ and retain consultants with qualifications, terms of reference and terms and conditions of employment satisfactory to the Bank. These consultants shall be retained in accordance with the provisions set forth in Section II, Part B of Schedule 4 to this Agreement. For purposes of this paragraph the term "on-going timber harvesting operations" means Timber Permits, Timber Authorities or any other forestry operations active as of the date of this Agreement.

10. To determine the status of compliance with the Forestry Act, including the Logging Code of Practice, the Borrower shall, through PNGFA, review all logging permit applications submitted after the date of this Agreement under their arrangements satisfactory to the Bank. To assist PNGFA in this undertaking, PNGFA shall employ and retain consultants with qualifications, terms of reference and terms and conditions of employment satisfactory to the Bank, until the Borrower establishes and maintains a Probity Commissioner to carry out forest resource allocation processes under the Project, on terms and conditions satisfactory to the Bank. These consultants shall be retained in accordance with the provisions set forth in Section II, Part B of Schedule 4 to this Agreement. For purposes of this paragraph the term "logging permits" means Forest Management Agreements, Timber Permits, Timber Authorities and geographic extensions to Timber Permits.

SCHEDULE 6

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 works, goods and services required for Parts A, C and D of 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 \$1,000,000 to be withdrawn from the Loan Account and deposited in Kina 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 \$500,000 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 \$8,000,000.

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 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) 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

(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.

