

INTERIM FUND CREDIT NUMBER N014 CE

Interim Fund  
Development Credit Agreement

(Environmental Action I Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator of the interim trust fund established with funds contributed by certain members of International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of International Development Association

Dated April 22, 1997

INTERIM FUND CREDIT NUMBER N014 CE

INTERIM FUND DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 22, 1997, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted in June 26, 1996.

WHEREAS (A) by the Interim Fund Resolution the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as Administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Administrator to assist in the financing of the Project through the provision of resources from the Interim Fund, and the Administrator has determined that such assistance would be in accordance with the provisions of the Interim Fund Resolution; and

WHEREAS the Administrator has agreed, on the basis, inter alia, of the foregoing, to extend the Interim Fund Credit 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 Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The term "Association", wherever used in the General Conditions means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement;

(b) The terms "Development Credit Agreement", "Credit" and "Credit Account", wherever used in the General Conditions, are amended to read "Interim Fund Development Credit Agreement", "Interim Fund Credit" and "Interim Fund Credit Account", respectively;

(c) A new paragraph, numbered 15 is added to Section 2.01 to read as follows:

"15. "Participating Country" means any country that meets the requirements set forth in Section 5(e) of Resolution No. IDA 184 of the Board of Governors of the Association, adopted on June 26, 1996, as determined by the Administrator as of the date on which the Interim Fund Credit was approved pursuant to Section 5(c) of said Resolution and "Participating Countries" means, collectively, all such countries.

(d) The last sentence of Section 3.02 is deleted.

(e) The second sentence of Section 5.01 is modified to read:

"Except as the Administrator and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(f) In Section 6.02 and 7.01 of the General Conditions, the term "Association" shall also mean the International Development Association acting in its own capacity.

(g) Section 6.03 is modified to read as follows:

"Section 6.03. Cancellation by the Administrator. If (a) the right of the Borrower to make withdrawals from the Interim Fund Credit Account shall have been suspended with respect to any amount of the Interim Fund Credit for a continuous period of thirty days, or (b) at any time, the Administrator determines, after consultation with the Borrower, that an amount of the Interim Fund Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Interim Fund Credit, or (c) at any time the Administrator determines, with respect to any contract to be financed out of the proceeds of the Interim Fund Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Interim Fund Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Administrator to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (d) at any time, the Administrator determines that the procurement of any contract to be financed out of the proceeds of the Interim Fund Credit is inconsistent with the procedures set forth or referred to in the Interim Fund Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or

(e) after the Closing Date, an amount of the Interim Fund Credit shall remain unwithdrawn from the Interim Fund Credit Account, the Administrator may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Interim Fund Credit shall be canceled."

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) "MAL&F" means the Borrower's Ministry of Agriculture, Lands and Forestry;

(b) "MTEWA" means the Borrower's Ministry of Transport, Environment and Women's Affairs;

(c) "Special Account" means the Special Account to be opened by the Borrower pursuant to the provisions of Section 2.02 (b) of this Agreement;

(d) "CEA" means the Central Environmental Authority established and operating under the National Environmental Act, No. 47 of 1980, as amended by Act No. 56 of 1988;

(e) "NGO" means a non-governmental organization established in the Borrower's territory; and

(f) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated February 10, 1995, February 21, 1995, March 13, 1996, and September 11, 1996 between the Borrower and the Association.

## ARTICLE II

### The Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Interim Fund Development Credit Agreement, an amount in various currencies equivalent to ten million seven hundred thousand Special Drawing Rights (SDR 10,700,000).

Section 2.02. (a) The amount of the Interim Fund Credit may be withdrawn from the Interim Fund Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Interim Fund Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Administrator. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and pay to the Association the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2002 or such later date as the Administrator shall establish. The Administrator shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Interim Fund Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the

rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Interim Fund Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semi-annual installments payable on each March 15 and September 15 commencing September 15, 2007 and ending March 15, 2037. Each installment to and including the installment payable on March 15, 2017 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Administrator may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Administrator of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Interim Fund Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Interim Fund Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date in which the Administrator notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Administrator may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Administrator on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Administrator, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Administrator may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

## Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project 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.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Administrator shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Administrator shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Interim Fund Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. 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 Administrator, and furnish to the Administrator 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 Administrator, a plan for the future operation of the Project; and

(b) afford the Administrator 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 for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator;

(ii) furnish to the Administrator, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested; and

(iii) furnish to the Administrator such other information concerning said records, accounts and the audit thereof as the Administrator shall from time to time reasonably request.

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

(a) of this (i) maintain or cause to be maintained, in accordance with paragraph Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Administrator has received the audit for the fiscal year in which the last withdrawal from the Interim Fund Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing

such expenditures;

(iii) enable the Administrator'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.

#### ARTICLE V

##### Remedies of the Association and the Administrator

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that the Borrower has taken any action for dissolution of CEA or suspension of its operations.

#### ARTICLE VI

##### Effective Date; Termination; Designation of Administrator

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Interim Fund Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Borrower has appointed consultants satisfactory to the Administrator for the following activities under the Project:

- (a) under Part A thereof:
  - (i) policy/planning assistance;
  - (ii) contracting out CEA activities;
  - (iii) reviewing salary structure and license fees; and
  - (iv) clearing CEA's license backlog.
- (b) under Part B thereof:
  - (i) the baseline survey; and
  - (ii) monitoring the work relating to land use mapping and planning; and community group formation.

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.

Section 6.03. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the Association in accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of a date to be notified by the Administrator to the Borrower.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Secretary, or the Director General, External Resources Department, Ministry of Finance and Planning 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 and Planning  
Democratic Socialist Republic of Sri Lanka  
Colombo, Sri Lanka

Cable address:

SECMINFIN  
Colombo

Telex:

FINMIN 21409  
FORAID 21232

For the Association and the Administrator:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INDEVAS  
Washington, D.C.

Telex:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ Jayantha Dhanapala

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION  
as Administrator of the interim trust fund established with funds  
contributed by certain members of International Development  
Association pursuant to Resolution No. IDA 184 of the Board  
of Governors of International Development Association

By /s/ Fakhruddin Ahmed

Acting Regional Vice President  
South Asia

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Interim Fund Credit

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

Category	Amount of the Interim Fund Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Equipment, materials and vehicles		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(a) for Parts A and B of the Project	970,000	
(b) for Part C of the Project	360,000	
(2) Civil works (other than field works)		90%
(a) for Parts A and B of the Project	1,700,000	
(b) for Part C of the Project	40,000	
(3) Field works		70%
(a) for Parts A and B of the Project	1,080,000	
(b) for Part C of the Project	290,000	
(4) Consultants' services and training		100%
(a) for Parts A and B of the Project	2,790,000	
(b) for Part C of the Project	320,000	
(5) Operating costs		90%
(a) for Parts A and B of the Project	630,000	
(b) for Part C of the Project	20,000	
(6) Incremental salaries for Parts A and B of the Project	650,000	90% through December 31, 1998, 70% through December 31, 1999, 50% through December 31, 2001, and 25% thereafter
(7) Refunding of Project pursuant Preparation Advance	790,000	Amount due  to Section 2.02 (c) of this Agreement
(8) Unallocated	1,060,000	
TOTAL	<u>10,700,000</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 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;

(c) the term "operating costs" means costs incurred under the Project on or after April 1, 1997, for the operations and maintenance of vehicles, equipment, furniture, buildings and offices; and

(d) the term "incremental salaries" means salaries for persons hired to fill positions created for the carrying out of the Project on or after April 1, 1997.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) expenditures under Categories (1) (b), (2) (b), (3) (b), (4) (b) and (5) (b) until (i) a Memorandum of Understanding, satisfactory to the Administrator, between MTEWA, MAL&F and Provincial Department of Agriculture (PDA) of the Central Province shall have been concluded and entered into effect; (ii) the Land Steering Committee shall have been established pursuant to the provisions of paragraph 6 (b) of Schedule 4 to this Agreement; (iii) the Natural Resource Management Specialist and catalysts required for the first year's implementation program have been recruited; and (iv) the standard 30 year lease agreement referred to in paragraph 6 (c) (i) of Schedule 4 to this Agreement has been prepared and utilized, to the Administrator's satisfaction.

4. The Administrator may require withdrawals from the Interim Fund Credit Account to be made on the basis of statements of expenditure for: (a) operating costs, incremental salaries and training; and (b) contracts not exceeding the equivalent of (i) \$200,000 for goods and works; (ii) \$100,000 for the services of consulting firms; and (iii) \$50,000 for the services of individual consultants, under such terms and conditions as the Administrator shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower in strengthening its institutional and policy framework for environmental management.

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

#### Part A: Institutional Strengthening

1. Establishing and strengthening a Policy Unit in the Environmental Division of the MTEWA through provision of additional staff, training, research facilities and publications, vehicles and office equipment, and related technical assistance to assist in the preparation of annual policy research and work programs, and for carrying out annual performance evaluations relating to project implementation and the state of the environment.

2. Strengthening of the CEA, especially its regulatory and enforcement capabilities, through provision of additional staff, technical assistance, training, vehicles and equipment and construction of office facilities to share with the Environmental Division of MTEWA.

3. Provision of technical assistance and related equipment for the development and implementation by MTEWA of an integrated environmental monitoring and information system.

4. Development and implementation of an NGOs outreach program through provision of

training and other opportunities to participate in activities relating to environmental policy, local natural resource management, soil conservation programs and environmental education.

5. Development of a framework of economic-environmental linkages by (a) carrying out studies to analyze policy implications of such linkages; (b) disseminating reports on status of environmental activities in Sri Lanka; and (c) conducting workshops on improving adherence to sound environmental principles.

Part B: Community Environment Initiatives Facility

Involving communities in the priority areas of the National Environmental Action Plan of the Borrower, through subprojects consisting of demonstrative environmental activities, and provision of training facilities for local communities in participatory work on environmental and conservation issues.

Part C: Pilot Land Management

Carrying out a program of pilot land management activities in ten selected subwatersheds in the hilly areas of the Borrower's Central Province to: (i) test and develop on a watershed basis suitable technologies for minimizing the land degradation; (ii) examine the feasibility of participatory management of microwatersheds by the beneficiaries; and (iii) define the technical and investment criteria in replicating watershed development activity in other hilly areas, all through the provision of crop inputs, field works, vehicles and equipment, mapping, evaluation studies, incremental staff and operating costs, village based nurseries, and related technical assistance and training.

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The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Subject to the eligibility restrictions set forth to Section III of this Schedule, 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 (the Guidelines) and revised in January and August 1996, and the following provisions of this Section, as applicable.

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 shall be grouped together in homogenous packages.

(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) Contracts for works (except farmers' centers and field works) may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Field equipment, as well as other goods estimated to cost \$100,000 equivalent or less per contract and \$200,000 equivalent or less in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

## 2. National Shopping

Goods estimated to cost \$50,000 equivalent or less per contract and \$200,000 equivalent or less in the aggregate, 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.

## 3. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines and consist of field works and construction of farmers' centers may, with the Administrator's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

## Part D: Review by the Administrator of Procurement Decisions

### 1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Administrator 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 Administrator, and with the provisions of said paragraph 1.

### 2. Prior Review

With respect to each contract for goods or works estimated to cost the equivalent of \$200,000 or more, 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 D, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

1. Subject to the eligibility restrictions set forth in Section III of this Schedule, consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Administrator. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Administrator shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Administrator review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Administrator review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting

firms, (c) assignments of a critical nature, as reasonably determined by the Administrator, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

### Section III. Eligibility Restrictions

1. Notwithstanding the provisions of paragraph 1.6 of the Guidelines, the proceeds of the Interim fund credit may only be withdrawn on account of expenditures for goods and works provided by nationals of, and produced in or supplied from, Participating Countries; consequently, nationals of countries that are not Participating Countries and bidders offering goods and works from such countries shall be disqualified from bidding for such contracts, and the bidding documents shall so specify.

2. Notwithstanding the provisions of paragraph 1.02 of the Consultant Guidelines, only consultants from Participating Countries shall be eligible to provide services financed out the proceeds of the Interim Fund Credit.

### SCHEDULE 4

#### Implementation Program

1. The Borrower shall establish, or cause to be established, by July 31, 1997, a Policy Unit within the Environmental Division of MTEWA.

2. The Borrower shall, no later than September 30, 1997, issue an updated National Environmental Action Plan, satisfactory to the Administrator, for the period 1999 to 2002.

3. For purposes of carrying out Part A.2 of the Project, the Borrower shall ensure that studies on staff incentives, private sector involvement and an appropriate license fee structure for the CEA shall commence no later than September 30, 1997; action plans based on the results of such studies shall be furnished to the Administrator no later than March 31, 1998; and said plans shall be carried out after the Administrator has reviewed and approved said plans.

4. The Borrower shall, no later than September 30, 1997, finalize the NGO outreach program to be carried out under Part A (4) of the Project; furnish said program to the Administrator for its review and approval; and thereafter implement it.

5. For the purposes of overall coordination in the implementation of the Project, the Borrower shall, no later than July 31, 1997, establish and thereafter maintain with such membership, responsibilities and resources as shall be satisfactory to the Administrator:

(a) a Steering Committee headed by the Secretary, MTEWA; and

(b) a Committee on Integrating Environment and Development Policy jointly chaired by the Secretary, Ministry of Finance and Planning, and the Secretary, MTEWA.

6. For the purposes of carrying out pilot land management programs under Part C of the Project, the Borrower shall:

(a) prepare five microcatchment plans not later than September 30, 1997, and five more such plans no later than April 30, 1998, all such plans to be satisfactory to the Administrator;

(b) establish and thereafter maintain with membership, powers and responsibilities satisfactory to the Administrator, a Land Steering Committee; and

(c) in the areas of the pilot land management programs cause its Forestry Department (i) to prepare and utilize standard lease agreements which shall, inter alia, provide for 30 year leases requiring lessees to carry out land management practices satisfactory to the Forestry Department and the Administrator, and (ii) to extend the term of existing permit holders on reservations for a minimum period of five years, which extension shall be conditional inter alia on the lessee carrying out

the management practices stipulated.

7. The Borrower shall recruit, or cause to be recruited, additional staff for the Environmental Division of MTEWA and the CEA in accordance with a timetable satisfactory to the Administrator, which staff shall include, for the Environmental Division about 17 new professional/technical staff, and for the CEA about 48 new professional/technical staff and about 24 staff to fill approved positions.

8. The Borrower shall:

(a) by September 30, 1998, carry out in-depth review of the progress in carrying out the Project; promptly thereafter furnish a copy of the findings and recommendations of such review to the Administrator for discussion, and, as a result of such discussion, implement recommendations satisfactory to the Administrator; and

(b) by June 30, 2000, carry out a second in-depth review of the progress in carrying out the Project; promptly thereafter furnish a copy of the findings and recommendations of such review to the Administrator for discussion; and, as a result of such discussion, implement recommendations satisfactory to the Administrator.

9. For carrying out Part B of the Project, the Borrower shall:

(a) maintain a Committee, with membership and responsibilities satisfactory to the Administrator, to select proposals for the financing of the subprojects; and cause such Committee to make a selection only after having an evaluation of such proposals carried out by consultants, provided that the evaluation of the first five proposals reviewed, and all subsequent proposals for subprojects estimated to cost \$200,000 equivalent or more, will have been furnished to the Administrator for its approval prior to submission to the Committee;

(b) ensure that all proposals selected to be financed meet eligibility criteria agreed with the Administrator, including, without limitation, the following: (i) the participating organizations proposed to carry out the subprojects are local government authorities, non-governmental organizations, approved societies or research organizations, provided that such organizations shall (A) have at least two years of experience dealing with environmental issues and in organizing and assisting community groups, and (B) have adequate administrative, financial and managerial capacity; (ii) contribution of participating organizations of at least 20% either in cash or in kind; (iii) no involuntary resettlement is involved; and (iv) environmental benefits and risks have been assessed;

(c) prepare participation agreements, in form and substance satisfactory to the Administrator, setting out the responsibilities of MTEWA and the various participating organizations for implementing and supervising the selected proposals; and

(d) hire services of specialists to carry out detailed evaluation of said Part of the Project on the average of twice a year.

10. The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Administrator, the carrying out of the Project and the achievement of the objectives thereof.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) 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 and services required for the Project and to be financed out of the proceeds of the Interim Fund Credit 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 \$1,200,000 to be withdrawn from the Interim Fund Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Administrator shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$700,000 until the aggregate amount of withdrawals from the Interim Fund Credit Account plus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 4,000,000.

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 Administrator 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 Administrator 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 Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit 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 Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Administrator the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or replenishment is requested. On the basis of each such request, the Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit 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 Administrator from the Interim Credit 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 Administrator shall reasonably request, furnish to the Administrator 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 Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Borrower directly from the Interim Fund Credit 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 Administrator, 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 Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator 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 Interim Fund Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Interim Fund Credit allocated to

the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association 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 Interim Fund Credit Account of the remaining unwithdrawn amount of the Interim Fund Credit allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator 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 Administrator 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 Administrator, the Borrower shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into said 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 Administrator 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 Administrator, refund to the Administrator such outstanding amount.

(c) The Borrower may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the Special Account.

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

