

CONFORMED COPY

PNGMGCTF-GEF TRUST FUND GRANT NUMBER TF050373 - PNG

Global Environment Facility
Trust Fund Grant Agreement

(Forestry and Conservation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

and

PNG MAMA GRAUN CONSERVATION TRUST FUND

Dated December 20, 2001

PNGMGCTF-GEF TRUST FUND GRANT NUMBER TF050373 - PNG

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated December 20, 2001, between PNG MAMA GRAUN CONSERVATION TRUST FUND (the PNGMGCTF), a non-stock, non-profit organization organized and operating under the laws and regulations of The Independent State of Papua New Guinea, in particular the Companies Act 1997, 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, and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) The Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) Following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution No. 94-2);

(C) The second replenishment of the GEF Trust Fund was approved on the basis set forth in Resolution No. 98-2 of July 14, 1998, of the Executive Directors of the

Bank (Resolution No. 98-2);

(D) The PNGMGCTF and The Independent State of Papua New Guinea (the Government), having satisfied themselves as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), have requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of Part B of the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2, and to be funded from contributions to the GEF Trust Fund under Resolution No. 98-2, which may include funds carried over from the first replenishment of the GEF Trust Fund under Resolution No. 94-2;

(E) The Government, through its letter to the Bank dated July 30, 2001, has agreed that the resources of the Global Environment Facility (GEF) Trust Fund Grant approved for the financing of Part B of the Project be provided directly to the PNGMGCTF under the terms and conditions set forth in this Agreement;

(F) The Bank has received from the Government a Memorandum of Agreement (MOA) entered into between the PNGMGCTF and each of the Government's Department of Finance and Treasury, PNG Forest Authority, and Office of Environment and Conservation dated November 19, 2001, declaring, inter alia, that there are no impediments under the laws of The Independent State of Papua New Guinea, and that otherwise the Government shall take all action necessary, for the PNGMGCTF to carry out its respective parts of the Project and perform each of its obligations under this Agreement.

(G) The Independent State of Papua New Guinea (the Borrower) has also requested the Bank to provide financing for the implementation of Parts A, C and D of the Project by an agreement of even date herewith between the Borrower and the Bank, the Bank is agreeing to provide such assistance in an aggregate principal amount equal to seventeen million three hundred sixty thousand Dollars (US\$17,360.00) (the Loan); and

(H) the Borrower has also requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund to provide additional financing for the implementation of Parts A and D of the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2, and to be funded from contributions to the GEF Trust Fund under Resolution No. 98-2, which may include funds carried over from the first replenishment of the GEF Trust Fund under Resolution No. 94-2; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the PNGMGCTF-GEF Trust Fund Grant to the PNGMGCTF 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 (a) The following provisions of the "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999, (the General Conditions) with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (14), (17) and (21), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Sections 4.01 and 4.06;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i) and (k), 6.03, 6.04 and 6.06;

- (vii) Section 8.01 (b);
 - (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
 - (ix) Sections 10.01, 10.03 and 10.04;
 - (x) Article XI; and
 - (xi) Sections 12.01 (c), 12.02, 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) a new paragraph shall be added to the end of Section 2.01 to read as follows: "the term "Special Drawing Rights" and the symbol "SDR" mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement";
 - (ii) the term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (6) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term "Bank" shall also include the Bank acting in its own capacity;
 - (iii) the term "Borrower", wherever used in the General Conditions, means the PNGMGCTF;
 - (iv) the term "Loan Agreement", wherever used in the General Conditions, means this Agreement;
 - (v) the term "Loan" and "loan", wherever used in the General Conditions, means the PNGMGCTF-GEF Trust Fund Grant;
 - (vi) the term "Loan Account", wherever used in the General Conditions, means the PNGMGCTF-GEF Trust Fund Grant Account;
 - (vii) a new subparagraph is added after subparagraph (p) in Section 6.02 of the General Conditions, as follows: "an extraordinary situation shall have arisen in which any further disbursement under the PNGMGCTF-GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF."; and
 - (viii) Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals 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 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) "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.

(d) "Forestry Act" means the Borrower's comprehensive legislation on forestry activities enacted in 1991, as amended to the date of this Agreement.

(e) "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 this Agreement, and the term "Grants" means, collectively, all of such Grants.

(f) "Kina" means the currency of The Independent State of Papua New Guinea.

(g) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank, dated September 1, 1999, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

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

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

(j) "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, amended on November 13, 2000, as the same may be further amended from time to time.

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

(l) "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 this Agreement allocated from time to time to Category (4) of Schedule 1 to this Agreement, and the term "Sub-grants" means, collectively, all of such Sub-grants.

(m) "Sub-grant Agreement" means the agreement to be entered into between the PNGMGCTF 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.

(n) "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.

ARTICLE II

The PNGMGCTF-GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the PNGMGCTF, on the terms and conditions set forth or referred to in this Agreement, the PNGMGCTF-GEF Trust Fund Grant in an amount in various currencies equivalent to eleven million seven hundred fifty thousand Special Drawing Rights (SDR 11,750,000).

Section 2.02. (a) The amount of the PNGMGCTF-GEF Trust Fund Grant may be withdrawn from the PNGMGCTF-GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part B of the Project and to be financed out of the proceeds of the PNGMGCTF-GEF Trust Fund Grant; (ii) amounts paid (or, if the Bank shall so agree, to

be paid) by the PNGMGCTF on account of a Sub-grant under Part B of the Project and in respect of which the withdrawal from the PNGMGCTF-GEF Trust Fund is requested and to be financed out of the proceeds of the PNGMGCTF-GEF Trust Fund Grant; and (iii) expenditures in respect of the contributions to be made to the PNGMGCTF's capital fund for purposes, inter alia, of making Grants.

(b) The PNGMGCTF may, for the purposes of Part B of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 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 PNGMGCTF of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The PNGMGCTF 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 Part B of the Project with due diligence and efficiency and in conformity with appropriate forestry, environment, managerial, financing and administrative practices and with due regard to ecological, social and environmental factors, and the provisions of the Convention on Biological Diversity, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part B of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the PNGMGCTF and the Bank shall otherwise agree, the PNGMGCTF shall carry out Part B of the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of: (a) goods and consultants' services under Categories (1) and (2) of Schedule 1 to this Agreement shall be governed by the provisions of Schedule 4 to this Agreement; and (b) the works, goods and consultants' services under a Sub-Project and to be financed out of the proceeds of a Grant or Sub-grant shall be governed by the provisions of the PNGMGCTF Operations Manual.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the PNGMGCTF shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the PNGMGCTF and the Bank, a plan for the future of its operation; and

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

ARTICLE IV

Financial Conditions

Section 4.01. (a) The PNGMGCTF shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources, capital fund investments and expenditures in respect of Part B of the Project.

(b) The PNGMGCTF 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

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 PNGMGCTF-GEF Trust Fund Grant Account were made on the basis of statements of expenditure, the PNGMGCTF 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 PNGMGCTF-GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in 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 PNGMGCTF shall carry out a time-bound action plan acceptable to the Bank for the strengthening of its financial management system for carrying out Part B of the Project in order to enable the PNGMGCTF, 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 Part B of the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for Part B of 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 PNGMGCT-GEF Trust Fund Grant during the period covered by said report and expenditures proposed to be financed out of the proceeds of the PNGMGCT-GEF Trust Fund Grant during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in the implementation of Part B of the Project, 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 Part B of the Project and expenditures under contracts financed out of the proceeds of the PNGMGCT-GEF Trust Fund Grant, 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 PNGMGCTF 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 (k) of the General Conditions, the following additional events are specified:

(a) The PNGMGCTF's Constitution or Deed shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the PNGMGCTF to perform any of its obligations under this Agreement.

(b) 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 the Loan Agreement, and (ii) the PNGMGCTF to perform any of its obligations under this Agreement.

(c) 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 the Loan Agreement, and (ii) the PNGMGCTF to perform any of its obligations under this Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the PNGMGCTF or for the suspension of its operations.

(e) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the PNGMGCTF to withdraw the proceeds of any loan or grant made to the PNGMGCTF shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the PNGMGCTF establishes to the satisfaction of the Bank that:

(A) such suspension, cancellation, termination or prematuring, in the case of loans and suspension, cancellation, termination in the case of grants, is not caused by the failure of the PNGMGCTF to perform any of its obligations under the relevant Agreement; and

(B) adequate funds for Part B of the Project are available to the PNGMGCTF from other sources on terms and conditions consistent with the obligations of the PNGMGCTF under this Agreement.

ARTICLE VI

Effectiveness, Termination

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that this Agreement has been duly authorized or ratified by PNG Mama Graun Conservation Trust Fund, and is legally binding upon PNG Mama Graun Conservation Trust Fund in accordance with its terms.

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. This Agreement shall continue in effect until the PNGMGCTF-GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have

fulfilled their obligations hereunder.

ARTICLE VII

Representative of the PNGMGCTF; Addresses

Section 7.01. The Chairperson of the Board of the PNGMGCTF is designated as representative of the PNGMGCTF 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 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	248423 (MCI)	202-522-1590
Washington, D.C.	64145 (MCI)	202-522-3308

For the PNGMGCTF:

Chairperson of the Board
P.O. Box 1634
Boroko
NCD, Papua New Guinea

Facsimile:

(675) 3232147

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
acting as an implementing agency of the Global Environment
Facility

By /s/ Jemal-ud-din Kassum

Authorized Representative

PNG MAMA GRAUN CONSERVATION TRUST FUND

By /s/ Nagora Bogan

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the PNGMGCTF-GEF Trust Fund Grant

1. The table below sets forth the Categories of items to be financed out of the

proceeds of the PNGMGCTF-GEF Trust Fund Grant, the allocation of the amounts of the PNGMGCTF-GEF Trust Fund Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the PNGMGCTF-GEF Trust Fund Grant Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods under Part B of the Project	90,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(2) Consultants' services, training, seminars, conference and workshops under Part B of the Project	1,000,000	100%
(3) Incremental Operating Costs	470,000	100%
(4) Sub-grants	2,350,000	100%
(5) Capital Fund	7,840,000	100%
TOTAL	11,750,000	

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";

(c) the term "Incremental Operating Costs" means reasonable expenditures all expenditures directly related to the Project, incurred by PNGMGCTF (which expenditures would not have been incurred absent the Project), including expenditures for the cost of salaries and allowances, local travel and per-diem for the staff of the PNGMGCTF, extension services and office costs, including rental, utilities, maintenance and repairs, for the PNGMGCTF; and

(d) the term "Capital Fund" means the initial contribution made to the capital of the PNGMGCTF in the form of an endowment to: (i) make Grants out of the proceeds of the investment income obtained from the Capital Fund; (ii) reinvest the gross proceeds of the investment income obtained from the Capital Fund to maintain the value of PNGMGCTF's capital; and (iii) cover the administrative costs of PNGMGCTF representing no more than 20% of the net proceeds of the investment income obtained from the Capital Fund after reinvestment has been made pursuant to sub-paragraph (ii) above.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; and

(b) in respect of expenditures under Category (5) of the table in paragraph 1 of this Schedule until the Bank has been furnished with evidence satisfactory to the Bank that: (i) at least twenty (20) Sub-grants shall have been made pursuant to the provisions of paragraph 1 of Schedule 3 to this Agreement; (ii) the PNGMGCTF is in compliance with the provisions of this Agreement in particular with those set forth in Sections 4.01 and 4.02 thereof; and (iii) the PNGMGCTF shall have obtained from one or more donors additional financing to carry out its operations in an aggregate amount of not less than \$5,000,000 equivalent, under terms and conditions satisfactory to the Bank.

4. Without limitation to the provisions set forth in paragraph 3(b) of this Schedule, the proceeds of the PNGMGCTF-GEF Trust Fund Grant allocated under Category (5) of the table in paragraph 1 of this Schedule may, at the discretion of the Recipient, be withdrawn from the PNGMGCTF-GEF Trust Fund Grant Account under one or more application for withdrawal providing for the entire amount of the PNGMGCTF-GEF Trust Fund Grant or a portion thereof to be paid to the order of PNGMGCTF's account established by PNGMGCTF.

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

6. If the Bank shall have determined at any time that any payment made from the PNGMGCTF-GEF Trust Fund Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the PNGMGCTF shall, promptly upon notice from the Bank, refund to the Bank for deposit into the PNGMGCTF-GEF Trust Fund Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Bank.

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 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

Implementation Program

1. Grants and Sub-grants shall be made pursuant to the provisions of the PNGMGCTF Operations Manual.

2. The PNGMGCTF shall not assign, amend, abrogate or waive the PNGMGCTF Operations Manual, without the Bank's prior concurrence.

3. The PNGMGCTF 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 Part B 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, 2003, 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 Part B 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 Part B 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, 2003, 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 Part B 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.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods 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 or National Shopping

Except as provided for in Part C below, goods shall 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.

Part C: Procurement from UN Agencies

Vehicles and computers 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 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 goods to be procured in accordance with the procedures referred to in Part B 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.

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 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.

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth 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 Part B of the Project and expenditures in respect of the reasonable cost of works, goods and services for Sub-projects and to be financed out of the proceeds of the PNGMGCTF-GEF Trust Fund Grant allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000

to be withdrawn from the PNGMGCTF-GEF Trust Fund Grant Account and deposited in Dollars into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 PNGMGCTF 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 PNGMGCTF, withdraw from the PNGMGCTF-GEF Trust Fund Grant Account and deposit into the Special Account such amount or amounts as the PNGMGCTF shall have requested.

(b) (i) For replenishment of the Special Account, the PNGMGCTF 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 PNGMGCTF 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 PNGMGCTF, withdraw from the PNGMGCTF-GEF Trust Fund Grant Account and deposit into the Special Account such amount as the PNGMGCTF 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 PNGMGCTF-GEF Trust Fund Grant Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the PNGMGCTF out of the Special Account, the PNGMGCTF 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 PNGMGCTF directly from the PNGMGCTF-GEF Trust Fund Grant 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 PNGMGCTF 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 PNGMGCTF of its intention to suspend in whole or in part the right of the PNGMGCTF to make withdrawals from the PNGMGCTF-GEF Trust Fund Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the PNGMGCTF-GEF Trust Fund Grant allocated to the eligible Category, 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 Sub-grants under Part B of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the PNGMGCTF-GEF Trust Fund Grant Account of the remaining

unwithdrawn amount of the PNGMGCTF-GEF Trust Fund Grant allocated to the eligible Category shall follow such procedures as the Bank shall specify by notice to the PNGMGCTF. 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 PNGMGCTF 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 PNGMGCTF 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 PNGMGCTF shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The PNGMGCTF 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 PNGMGCTF-GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

