

CONFORMED COPY

GEF GRANT NUMBER 28301

Global Environment Trust Fund
Grant Agreement

(Nature Reserves Management Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as Trustee of the Global Environment Facility
Trust Fund

Dated July 18, 1995

GET Grant Number 28301

GLOBAL ENVIRONMENT TRUST FUND GRANT AGREEMENT

AGREEMENT, dated July 18, 1995, between PEOPLE'S REPUBLIC OF CHINA (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT acting as Trustee of grant funds provided by Participants of the Global Environment Facility into the Global Environment Facility Trust Facility Fund (GEF) (the Trustee).

WHEREAS: (A) the International Bank for Reconstruction and Development (the Bank) pursuant to Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank (the Resolution), adopted the Instrument for the Establishment of the Restructured Global Environment Facility, to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development ;

(B) certain members of the Bank (the Participants) have provided resources by way of grant into the GEF and the Participants have requested and the Bank has agreed, to administer such grant funds as Trustee, for the purposes of, and in accordance with, provisions of the Resolution;

(C) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested assistance from the resources of the GEF in the financing of the Project, and the Trustee has determined that such assistance would be in accordance with the provisions of the Resolution;

(D) the Recipient has also requested International Development Association (the Association) to provide additional financing towards the financing of a Forest Resource Development and Protection Project, of which the Project described in Schedule 2 to this Agreement is a Part , and by an agreement dated July 6, 1994

between the Recipient and the Association (the Association) has agreed to provide such assistance in an aggregate principal amount equivalent to one hundred forty-one million seven hundred thousand Special Drawing Rights (SDR 141,700,000) (the Credit).

WHEREAS the Trustee has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Grant to the Recipient 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 of the Bank, dated January 1, 1985, 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), (6), (8), (9), (10), (11), (15), (18) and (20), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Section 4.01 and the first sentence of Section 4.09;
 - (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, 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 (8) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the Trustee except that in Section 6.02, the term "Bank" shall also include the International Bank for Reconstruction and Development acting in its own capacity;
 - (iii) the term "Borrower", wherever used in the General Conditions, means the Recipient;
 - (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 GEF Grant;
 - (vi) the term "Loan Account" wherever used in the General Conditions, means the GEF Grant Account;
 - (vii) the second sentence of Section 5.01 is modified to read: "Except as the Trustee and the Recipient shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the

territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; 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 Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."; and

(viii) a new sub-paragraph is added after sub-paragraph (j) in Section 6.02 of the General Conditions, as follows: "an extraordinary situation shall have arisen in which any further disbursement under the GEF Grant would exceed the resources available for disbursement from the GEF."

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) "Development Credit Agreement" means the agreement referred to in Recital (D) of the Preamble to this Agreement, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Development Credit Agreement.

(b) "Certificate" means the certificate provided by the Recipient in accordance with Section 3.02(c) of this Agreement.

(c) "Community Investment Grants" means the grants provided by Project Nature Reserve administrations to individuals or groups of individuals in selected communities within or adjacent to Project Nature Reserves to finance income-generating activities under Part A.3 (b) of the Project.

(d) "Investment Enterprise" means an enterprise to which the Changqing Forestry Bureau proposes to make or has made a Sub-loan.

(e) "MOF" means the Recipient's Ministry of Finance, and any successor thereto.

(f) "MFO" means the Recipient's Ministry of Forestry, and any successor thereto.

(g) "Project Implementation Arrangements" means the Project Implementation Rules and the acceptance letters provided by the Project Provinces in accordance with Section 3.02 of this Agreement.

(h) "Project Implementation Rules" means the detailed rules for the implementation of the Project issued by MFO in accordance with Section 3.02 (a) of this Agreement.

(i) "Project Nature Reserves" means the eight nature reserves listed in Part A of the Project and the Changqing National Nature Reserve under Part B of the Project, as set out in Schedule 2 to this Agreement, and "Project Nature Reserve" means any of the Project Nature Reserves.

(j) "Project Provinces" means Fujian Province, Hubei Province, Jiangxi Province, Shaanxi Province and Yunnan Province, and "Project Province" means any of the Project Provinces.

(k) "Relocation Package" means the payment made by Changqing Forestry Bureau to one of its workers under Part B.2 (c) of the Project to cover specifically identified costs incurred in connection with the relocation of that worker, in accordance with the provisions of paragraph E.1 of Schedule 4 to this Agreement, and "Relocation Packages" means more than one Relocation Package.

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

(m) "Sub-project" means a specific investment project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan under Part B.2(b) of the Project.

(n) "Sub-loan" means a loan made or proposed to be made by the Changqing

Forestry Bureau out of the proceeds of the GEF Grant to an Investment Enterprise for a Sub-project.

ARTICLE II

The GEF Grant

Section 2.01. The Trustee agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Grant in an amount in various currencies equivalent to twelve million Special Drawing Rights (SDR 12,000,000).

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

(b) The Recipient may, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank and on terms and conditions satisfactory to the Trustee 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, 2002 or such later date as the Trustee shall establish. The Trustee shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient 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 through its MFO and the Project Provinces with due diligence and efficiency and in conformity with appropriate forestry, environmental protection and management practices and with due regard to ecological and environmental factors, 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 Recipient and the Trustee shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Recipient shall make available, on a grant basis, to each Project Province, the proceeds of the GEF Grant corresponding to the activities under the Project which are undertaken in said Project Province.

Section 3.02. (a) The Recipient shall, through MFO:

- (i) issue to the Project Provinces, project implementation rules specifying the detailed arrangements for the implementation of the Project, which shall have been approved by the Trustee; and
- (ii) transmit these Project Implementation Rules to each Project Province for its written acceptance.

(b) The Recipient shall ensure that the Project Implementation Rules include, inter alia, the following provisions:

- (i) each Project Province shall carry out or cause to be carried out its respective parts of the Project with due diligence and efficiency and in conformity with appropriate forestry, environmental protection and management practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required; and
- (ii) each Project Province shall establish and maintain the provincial level management offices and shall cause the Project Nature Reserve level management offices to be maintained, as set out in paragraph A.1 of Schedule 4 to this Agreement.

(c) The Recipient shall furnish to the Trustee a certificate satisfactory to the Trustee showing that the Project Implementation Arrangements are legally binding upon the parties in accordance with their terms.

Section 3.03. Except as the Trustee 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 GEF Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. Without limitation upon the applicable provisions of Article IX of the General Conditions, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Trustee, and furnish to the Trustee not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Trustee, a plan for the future operation of the Project;

(b) afford the Trustee a reasonable opportunity to exchange views with the Recipient on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Trustee's comments thereon.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Recipient responsible for carrying out the Project or any part thereof.

(b) The Recipient 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 Trustee;

(ii) furnish to the Trustee 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 Trustee shall have reasonably requested; and

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

(c) For all expenditures with respect to which withdrawals from the GEF Grant Account were made on the basis of statements of expenditure, the Recipient 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 Trustee has received the audit report for the fiscal year in which the last withdrawal from the GEF Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Trustee'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 Trustee

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that any party to the Project Implementation Arrangements shall have failed to perform its obligations thereunder.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that (a) the Project Implementation Rules shall have been issued and the Project Provinces shall have provided their written acceptance, and (b) the Certificate shall have been furnished, all in accordance with Section 3.02 of 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.

Section 6.03. This Agreement shall continue in effect until the GEF Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

Ministry of Finance
Sanlihe
Beijing 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Trustee:

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

Cable address:

INTBAFRAD
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.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhou Wenzhong

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT as Trustee of
the Global Environment Facility Trust Fund

By /s/ Nicholas C. Hope

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Grant

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

Category	Amount of the GEF Grant Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works		85%
(a) for the biodiversity corridor in Wuyishan Nature Reserve under Part A.4 of the Project	210,000	
(b) other civil works under Parts A, B.1, C and E of the Project	870,000	
(2) Goods under Parts A, B.1, C, D and E of the Project	1,470,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Community Investment Grants	40,000	60%
(4) Sub-loans	2,040,000	100%
(5) Relocation Packages	580,000	80%
(6) Operating costs	270,000	100%
(7) Consultants' services, research services, training and study tours	5,320,000	100%

(8)	Unallocated	1,200,000
	TOTAL	12,000,000

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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term "local expenditures" means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient,

(c) the term "operating costs" means the costs incurred in respect of office supplies and communications, and staff travel and subsistence by staff of the Project Management Center in MFO and the project management office in the forestry department of each Project Province in carrying out field supervision of Project activities; and

(d) the term "research services" means expenditures incurred under contracts in accordance with paragraph D.5 of Schedule 4 to this Agreement.

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 except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR340,000 may be made in respect of Category (7) on account of payments made for expenditures before that date but after September 1, 1994; (b) expenditures under Category (1)(a), unless such resettlement plans as may be required for the carrying out of Part A.4 of the Project in the Wuyishan Nature Reserve shall have been furnished to the Trustee in accordance with the provisions of paragraph C.3 of Schedule 4 to this Agreement; (c) expenditures under Category (5) unless (i) the Recipient's State Council shall have designated the Changqing forestry area as a national-level nature reserve, as described in Part B.1 of the Project; and (ii) a report, acceptable to the Trustee, shall have been furnished to the Trustee in accordance with paragraph E.1(b) of Schedule 4 to this Agreement; and (d) a Sub-loan under Category (4) unless (i) the Recipient's State Council shall have designated the Changqing forestry area as a national-level reserve, as described in Part B.1 of the Project; and (ii) the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in paragraph E.3 of Schedule 4 to this Agreement.

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

5. The Trustee may require withdrawals from the GEF Grant Account to be made on the basis of statements of expenditure for expenditures : (a) under contracts for goods not exceeding \$200,000 equivalent; (b) for works; (c) under Sub-loans, Community Investment Grants, Relocation Packages and operating costs; (d) for research services, training and study tours; and (e) under contracts for individual consultants not exceeding \$50,000 equivalent and for consultants' services with firms not exceeding \$100,000 equivalent, all under such terms and conditions as the Trustee shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Recipient in enhancing biodiversity conservation in its nature reserves, through introduction of innovative approaches to organization, planning, skills development and information management and the integration of local communities into reserve management.

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

Part A: Strengthening Management of Nature Reserves

Strengthening the management of eight national nature reserves in five reserve areas to introduce improved biodiversity management techniques, in Xishuangbanna Nature Reserve in Yunnan Province, Poyang Lake Migratory Bird Nature Reserve in Jiangxi Province, Wuyishan Nature Reserve in Fujian and Jiangxi Provinces, Shennongjia Nature Reserve in Hubei Province, and in the Qingling Mountain reserve area of Shaanxi Province, the Foping Nature Reserve, Taibaishan Nature Reserve, Zhouzhi Nature Reserve and Niubeiliang Nature Reserve, by:

1. Introducing strategic planning, new management structures and improved administration for each Project Nature Reserve, through: (a) the preparation and implementation of nature reserve management plans and tourism development plans; and (b) the development of organizational systems for reserve management which increase accountability and responsibility, strengthen incentives for job performance and include guidelines for strategic and operational planning.
2. Enhancing field level protection for each Project Nature Reserve, through: (a) construction of guard posts, boundary markers, observation posts; and (b) provision of field equipment, field kits for collection of data and improved communications technology and equipment.
3. Expanding the role of local communities in nature reserve planning and management at the Project Nature Reserves, through: (a) developing, testing and providing training in new approaches for assessing community needs, resource uses and conflicts; (b) developing and implementing on a pilot basis programs to provide community investment grants that support income-generating activities at the community level; (c) strengthening education and outreach activities, such as conservation camps, conservation displays, conservation information centers and mobile conservation education workshops; and (d) developing co-management arrangements between nature reserve administrations and communities including community resource management plans and co-management contracts, with the provision of consultants' services and training.
4. Construction of infrastructure and provision of related equipment as required in each Project Nature Reserve, under its nature reserve management plan developed in Part A.1(a) of the Project.

Part B. Restructured Timber Harvesting

Undertaking a pilot program of restructured management of the natural forests in the Changqing Forest Area, Shaanxi Province, including:

1. Development of the Changqing National Nature Reserve, comprised of a core zone of about 11,000 hectares in which activities with adverse environmental impact, including timber harvesting and road construction, would be prohibited and an experimental zone of about 19,000 hectares in which timber harvesting and other activities would be managed on a sustainable basis, by:
 - (a) preparation and implementation of a nature reserve management plan; (b) construction of infrastructure and provision of equipment for enhanced protection of the core zone; and (c) reduction in harvesting levels, introduction of new silvicultural management practices and reforestation in the experimental zone.
2. Restructuring of commercial activities, by: (a) reducing the number of workers employed by the Changqing Forestry Bureau; (b) financing investment projects designed to create additional jobs through expansion of environmentally-sustainable commercial activities of enterprises outside the Changqing National Nature Reserve; and (c) providing relocation packages to workers whose employment is terminated under (a) above to cover the costs of relocation, retraining and placement, and livelihood development.

Part C: Developing Institutional Capacity

1. Strengthening the institutional capacity for nature reserve management within MFO, by: (a) developing an in-service training program for nature reserve personnel, under a nature reserves training team within MFO's Division of Nature Reserves; (b) preparation of an overall conservation plan for the national nature reserves system; (c) undertaking a program of comprehensive policy studies to address key issue arising in nature reserve management; and (d) provision of office equipment and operating costs for nature reserve management.
2. Implementing a pilot program for institutional development in nature reserves management at the provincial level, in Yunnan Province, including preparation of a provincial nature reserve conservation plan and reserve management plans for five

reserves within the Province, development of information and education programs, and construction and equipping of office space for the Provincial Office of Nature Reserves.

3. Provision of training for national nature reserve personnel under the program developed under Part C.1 (a) of the Project.

Part D: Information Systems

1. Development and introduction of an information database for improved biodiversity management at the national, provincial and reserve levels, including the provision of related equipment, training and consultants' services.

2. Undertaking monitoring and inventory surveys in Project Nature Reserves, including provision of related equipment and services.

Part E: Nature Reserve Research

1. Strengthening the capacity for scientific research at the Project Nature Reserve administrations, by construction and equipping of research laboratories and offices.

2. Assisting high priority research for the national nature reserve system, through a program of small research grants.

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. 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 in accordance with 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 and works shall be produced 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.

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 Recipient .

Part C: Other Procurement Procedures

1. Force Account

Civil works shall be carried out by force account in accordance with the provisions of paragraph 3.8 of the Guidelines.

2. National Competitive Bidding

Vehicles (except for patrol cars and mini-buses), office equipment (except for computers and printers) and other goods estimated to cost less than \$200,000 and more than \$75,000 per contract and \$1,400,000 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.

3. International and National Shopping

Goods estimated to cost \$75,000 or less per contract and \$1,400,000 equivalent

or less in the aggregate, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Trustee 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 Trustee 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 Trustee, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods 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, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. 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 as shall have been agreed by the Trustee. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Trustee shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Trustee 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 Trustee 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 Trustee, (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.

SCHEDULE 4

Implementation Program

A. Overall Project Management

1. The Recipient shall ensure that:

(a) the Project Management Center in MFO, the provincial level project management office in the forestry department of each Project Province and the project management office in each Project Nature Reserve shall be maintained with functions and responsibilities acceptable to the Trustee, with competent staff in adequate numbers, with appropriate arrangements for coordination with MFO's Division of Nature Reserves at the national level and the Office of Nature Reserves at the provincial level;

(b) in particular, by January 1, 1996, an additional ten staff members shall be employed at the Office of Nature Reserves in the Yunnan Provincial Forestry Department; and

(c) a Nature Reserve Training Team shall be established within MFO's Division of Nature Reserves, by October 1, 1995 with functions and responsibilities acceptable

to the Trustee, and competent staff in adequate numbers.

B. Planning, Reporting and Evaluation

1. The Recipient shall ensure that:

(a) by November 1 in each year, commencing November 1, 1995, an annual work plan and financing plan for Project activities for the next calendar year shall be furnished to the Trustee for review; and

(b) by July 1 and January 1 in each year, commencing January 1, 1996, a report on progress in the implementation of the Project in the preceding six months, as required under Section 9.07 (a) of the General Conditions, shall be furnished to the Trustee for review.

2. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Trustee, the carrying out of the Project and the achievement of the objectives thereof; and by April 1, 1996 prepare and furnish to the Trustee for comment a proposed plan for such monitoring and evaluation;

(b) thereafter, implement said monitoring and evaluation plan, taking into account the Trustee's comments thereon;

(c) prepare and furnish to the Trustee, on or about December 1, 1997, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (b) above, 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

(d) review with the Trustee by January 1, 1998 or such later date as the Trustee shall request, the report referred to in paragraph (c) 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 Trustee's views on the matter.

C. Nature Reserve Management

1. The Recipient shall ensure that:

(a) a nature reserve management plan, incorporating a time bound implementation schedule, description of any civil works required, and environmental assessment, carried out in accordance with guidelines acceptable to the Trustee is prepared and furnished to the Trustee for comment, not later than December 31, 1996 for the Project Nature Reserve at Shennongjia and the five Project Nature Reserves in the Qinling reserve area, and December 31, 1997 for the Project Nature Reserves at Wuyishan, Poyang Lake, and Xishuangbanna ;

(b) thereafter, the agency responsible for each such Project Nature Reserve shall implement said plan, as it shall have been revised to reflect the comments of the Trustee; and

(c) no civil works construction in such Project Nature Reserve shall commence until it has been provided for and agreed upon in such plan.

2. In order to implement Part A.3(b) of the Project the Recipient shall ensure that:

(a) a program for the financing of community investment grants shall be established in a total of eight communities selected for co-management activities in the Project Nature Reserves of Shennongjia, Qingling, Xishuangbanna and Poyang Lake, which shall be operated in accordance with guidelines acceptable to the Trustee, including the following provisions:

(i) grants shall be used to finance alternative income-generating investments that reduce the need for communities to harvest protected flora and fauna in Project Nature Reserves;

(ii) grants shall be approved by the provincial level office of nature

reserves; and

(iii) each grant shall be made under a contract between the beneficiary individual or group and the Project Nature Reserve administration, on the basis of a model contract acceptable to the Trustee, which shall specify, inter alia, procurement procedures meeting the applicable provisions of Schedule 3 to this Agreement; and

(b) a report evaluating experience in such programs is prepared and furnished to the Trustee for comment, not later than September 1, 1999.

3. The Recipient shall ensure that any involuntary resettlement of persons in connection with the implementation of the Project shall be carried out in accordance with principles and procedures satisfactory to the Trustee. To that end, if any such resettlement is expected under any portion of the Project, including in particular the construction of infrastructure in the Project Nature Reserve in Wuyishan under Part A.4 of the Project, a resettlement action plan satisfactory to the Trustee shall be prepared and furnished to the Trustee, prior to the commencement of the implementation of such portion of the Project.

D. Institutional Development, Training and Research

1. The Recipient shall:

(a) ensure that an overall conservation plan for the national nature reserve system, including a time-bound implementation schedule, is prepared under Part C.1 (b) of the Project and furnished to the Trustee for comment, not later than December 31, 1998; and

(b) thereafter, implement said plan, as it shall have been revised to reflect the comments of the Trustee.

2. The Recipient shall ensure that:

(a) the Yunnan Provincial Forestry Department shall prepare and furnish to the Trustee for comment, not later than -----December 31, 1999, a provincial nature reserve conservation plan, including a time-bound implementation schedule, under Part C.2 of the Project; and

(b) thereafter, implement said plan, as it shall have been revised to reflect the comments of the Trustee.

3. The Recipient shall ensure that the local and overseas training and study tours under Parts A.3, B.1 and C of the Project shall be carried out in accordance with a training program acceptable to the Trustee.

4. The Recipient shall ensure that the policy studies under Part C.1 (c) of the Project shall be carried out in accordance with terms of reference and timing acceptable to the Trustee, and that, promptly upon completion, each such study shall be furnished to the Trustee for comment.

5. The Recipient shall ensure that the small research grants program under Part E.2 of the Project shall be carried out in accordance with guidelines acceptable to the Trustee, with research carried out under contracts with competitively-selected researchers.

E. Restructured Timber Harvesting in Changqing

1. The Recipient shall ensure that Part B.2 (c) is carried out in accordance with the following requirements:

(a) Workers whose jobs are made redundant by the restructuring under Part B.2 (a) of the Project shall be provided an opportunity to select either: (i) potential re-employment under a Sub-project under Part B.2 (b) of the Project; or (ii) a Relocation Package. If more workers so select a Relocation Package than can be financed, Relocation Packages shall be made available to workers on the basis of a lottery.

(b) The Shaanxi Provincial Forestry Department shall prepare and furnish to the Trustee a report on proposed levels of compensation under Relocation Packages, using a baseline survey of surplus workers' costs, which shall be carried out in

accordance with terms of reference and timing acceptable to the Trustee.

(c) The terms and conditions of the Relocation Package agreed for each worker shall be specified in a contract entered into between such worker and the Changqing Forestry Bureau in form and substance satisfactory to the Trustee.

(d) Relocation Packages shall finance only costs incurred by surplus workers from a list of cost categories acceptable to the Trustee.

2. MFO shall prepare, in accordance with terms of reference acceptable to the Trustee, and furnish to the Trustee, not later than September 1, 1999 a report evaluating the implementation of Part B.2 of the Project.

3. The Recipient undertakes that, unless the Trustee shall otherwise agree, Sub-loans shall be made in accordance with the procedures and on the terms and conditions set forth or referred to below, and the Recipient shall exercise its rights in relation to each Sub-project in such manner as to: protect the interests of the Recipient and the Trustee; comply with its obligations under this Agreement; and achieve the purposes of the Project:

(a) Investment Enterprises shall be selected by agreement between the Recipient and the Trustee, to meet the following criteria: the Investment Enterprise shall be a legal entity, permitted to borrow funds under its charter or other constituent document, with independent management, separate financial statements and accounts subject to auditing by an independent auditor and following the accounting standards introduced in China in 1993.

(b) Sub-projects shall be expected to generate a financial rate of return of at least 10 per cent and be determined to be technically feasible on the basis of a feasibility study approved by the Trustee, and an environmental assessment shall be carried out for each proposed Sub-project in accordance with guidelines acceptable to the Trustee.

(c) Sub-loans shall be: extended for a maturity of not more than twelve years, including not more than four years of grace; accrue interest at a rate of four per cent per annum; and be denominated and payable in the currency of the Recipient. The foreign exchange risk shall be borne by the Shaanxi Provincial Forestry Department.

(d) When presenting a Sub-loan to the Trustee for approval, the Recipient shall furnish to the Trustee an application, in form satisfactory to the Trustee, together with: (i) a description of the Investment Enterprise and a feasibility study of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the GEF Grant; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) the environmental assessment under paragraph (b) above; and (iv) such other information as the Trustee shall reasonably request.

(e) Sub-loans shall be made on terms whereby the Changqing Forestry Bureau shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Trustee and the Recipient, including the right to:

(i) require the Investment Enterprise to carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(ii) require that: (A) the goods and services to be financed out of the proceeds of the GEF Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement and (B) such goods and services shall be used exclusively in the carrying out of the Sub-project;

(iii) inspect, by itself or jointly with representatives of the Trustee if the Trustee shall so request, such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(iv) require that: (A) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound

business practice; and (B) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the GEF Grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

- (v) obtain all such information as the Trustee or the Changqing Forestry Bureau shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Sub-project; and
- (vi) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the GEF Grant upon failure by such Investment Enterprise to perform its obligations under its contract with the Changqing Forestry Bureau.

4. The Recipient shall ensure that:

(a) Shaanxi Provincial Forestry Department shall utilize repayments of Sub-loans to finance restructuring activities similar to those under Part B of the Project in other nature reserves and environmentally-sensitive areas in Shaanxi Province; and

(b) an implementation plan for such activities shall be furnished to the Trustee for comment, by January 1, 1999.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Categories (1) - (7) 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 GEF 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 \$1,250,000 to be withdrawn from the GEF Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Trustee shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the GEF Grant Account plus the total amount of all outstanding special commitments entered into by the Trustee pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 6,700,000.

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 Trustee 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 Recipient shall furnish to the Trustee 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 Trustee shall, on behalf of the Recipient, withdraw from the GEF Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

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

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Trustee 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 Trustee shall, on behalf of the Recipient, withdraw from the GEF Grant Account and deposit into the Special Account such amount as the Recipient 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 Trustee from the GEF Grant 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 Recipient out of the Special Account, the Recipient shall, at such time as the Trustee shall reasonably request, furnish to the Trustee 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 Trustee shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Trustee shall have determined that all further withdrawals should be made by the Recipient directly from the GEF 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 Recipient shall have failed to furnish to the Trustee 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 Trustee pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Trustee shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the GEF Grant allocated to the eligible Category, minus the total amount of all outstanding special commitments entered into by the Trustee 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 GEF Grant Account of the remaining unwithdrawn amount of the GEF Grant allocated to the eligible Category shall follow such procedures as the Trustee shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Trustee 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 Trustee 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 Trustee, the Recipient shall, promptly upon notice from the Trustee (A) provide such additional evidence as the Trustee may request, or (B) deposit into the Special Account (or, if the Trustee shall so request, refund to the Trustee) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Trustee shall otherwise agree, no further deposit by the Trustee into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

