

CONFORMD COPY

GEF TRUST FUND GRANT NUMBER TF050644 CHA

Global Environment Facility Trust Fund Grant Agreement

(Sustainable Forestry Development Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated July 2, 2002

GEF TRUST FUND GRANT NUMBER TF050644 CHA

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated July 2, 2002, between PEOPLE'S REPUBLIC OF CHINA (the Recipient) 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 Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding 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 Recipient has also requested the Bank to provide additional financing towards the financing of the Project and by an agreement of even date herewith between the Recipient and the Bank, the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to ninety three million nine hundred thousand Dollars (\$93,900,000) (the Loan); and

(F) the Recipient intends to contract from the European Union (EU) a grant in an amount equal to sixteen million nine hundred thousand Euros (€16,900,000) (the EU Grant) to assist in financing Part A of the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and the EU (the EU Grant Agreement); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund 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 for Single Currency Loans of the Bank, dated May 30, 1995 (as amended through October 6, 1999), 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), 12.03 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 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 Trust Fund Grant;

- (vi) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account; and
- (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 GEF Trust Fund 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) “Category” means a category set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) “Community Conservation Activity” means a specific investment project identified in a Community Resource Management Plan to be carried out under Part B.2(a)(vi) of the Project.

(c) “Community Conservation Grant” means a grant provided by a Project Province to individuals or groups of individuals in selected communities within or adjacent to a Project Nature Reserve to finance a Community Conservation Activity under Part B.2(a)(vi) of the Project.

(d) “Community Resource Management Plans” means the plans prepared under Part B.2(a)(v) of the Project with respect to community co-management of Project Nature Reserve resources and “Community Resource Management Plan” means any of the Community Resource Management Plans.

(e) “Environmental Protection Guidelines” means the guidelines for environmental protection for Part C of the Project, dated April 10, 2001, prepared by PMC, which sets out environmental protection measures as well as administrative and monitoring arrangements to ensure the implementation of said measures, as such plan may be amended from time to time with the agreement of the Bank.

(f) “Environmental and Social Impact Assessment” and the acronym “ESIA” mean the Environmental and Social Impact Assessment dated December 6, 2000, which reviews the Project’s likely positive and negative environmental and social impacts.

(g) “EMDP” means the Ethnic Minority Development Plan dated April 10, 2001, prepared by PMC, which provides programmatic recommendations to mitigate possible negative impacts of the Project on ethnic minorities, as such plan may be amended from time to time with

the agreement of the Bank.

(h) “Implementation Arrangement” means, in respect of each Project Province, the arrangement referred to in paragraph B.3 of Schedule 4 to this Agreement between the Recipient and said Project Province for the implementation of the Project within such Project Province.

(i) “Loan Agreement” means the agreement of even date herewith between the Recipient 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 Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(j) “Loan Allocation” means, with respect to each Project Province, the portion of the proceeds of the Loan to be made available to said Project Province in accordance with Section 3.02(a) of the Loan Agreement.

(k) “Marketing Infrastructure Sub-loan” means a loan made or proposed to be made by a Project Province to a Rural Marketing Group out of the proceeds of the Loan for a Marketing Sub-project.

(l) “Marketing Sub-project” means a specific investment project to be carried out by a Rural Marketing Group under Part C.4(c)(iii) of the Project for the development or expansion of marketing infrastructure for economic tree crops.

(m) “Nature Reserve Management Plan” means a plan for the management of a Project Nature Reserve, required to be prepared and furnished to the Bank pursuant to paragraph C.1(a) of Schedule 4 to this Agreement.

(n) “Office of Wildlife and Plant Protection” means the office established within the Forestry Department in each Project Province, with responsibility for nature reserve planning, community-based nature conservation and co-ordination of training activities.

(o) “Pest Management Plan” means the Pest Management Plan for Part C of the Project, dated April 10, 2001, prepared by PMC, as such plan may be amended from time to time with the agreement of the Bank.

(p) “Policy Framework” means the Policy Framework for Resettlement and Land Acquisition for Parts A and C of the Project, dated April 10, 2001, prepared by PMC, setting forth the policies, planning principles and institutional arrangements designed to improve the living standards and productive capacity of persons affected by Parts A and C of the Project, as said Policy Framework may be amended from time to time with the agreement of the Bank.

(q) “Process Framework” means the Process Framework for Mitigating Potentially Adverse Livelihood Impacts for Part B of the Project, dated April 10, 2001, prepared by PMC,

setting forth criteria and procedures to be followed to ensure that eligible persons affected by Part B of the Project are assisted in their efforts to restore or improve their livelihoods in a manner which maintains the environmental sustainability of the relevant nature reserve, as said Process Framework may be amended from time to time with the agreement of the Bank.

(r) “Project Counties” means those counties within the Project Provinces in which afforestation activities are to be carried out under Part C of the Project, and “Project County” means any of the Project Counties.

(s) “Project Management Center” and the acronym “PMC” mean the project management center established within the SFA to be responsible for management and coordination of the implementation of Part C of the Project and required to be maintained in accordance with paragraph B.2 of Schedule 4 to this Agreement.

(t) “Project Nature Reserves” means the following thirteen nature reserves in the Project Provinces: Jianfengling Nature Reserve in Hainan Province; Baiyang, Si’er, Piankou and Xiaozhaizigou Nature Reserves in Sichuan Province (the Minshan Cluster); Baishuijiang and Tangjiahe Nature Reserves in Gansu and Sichuan Provinces (the Motianling Cluster); Badagongshan, Hupingshan and Houhe Nature Reserves in Hubei and Hunan Provinces (the Wulingshan Cluster); Fanjingshan Nature Reserve in Guizhou Province; and Baimaxueshan and Nujiang Nature Reserves in Yunnan Province; and “Project Nature Reserve” means any of the Project Nature Reserves.

(u) “Project Office” means the project management office established within SFA to be responsible for management and coordination of the implementation of Part B of the Project and required to be established pursuant to Section 6.01(d) of the Loan Agreement.

(v) “Project Provinces” means the Recipient’s provinces of Anhui, Gansu, Guizhou, Hainan, Hebei, Henan, Hubei, Hunan, Liaoning, Shandong, Shanxi, Sichuan and Yunnan, and “Project Province” means any of the Project Provinces.

(w) “Rural Marketing Group” means an individual, group of individuals, household or enterprise possessing legal person status.

(x) “SFA” means the Recipient’s State Forestry Administration, and any successor thereto.

(y) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and

conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount in various currencies equivalent to twelve million eight hundred thousand Special Drawing Rights (SDR12,800,000).

Section 2.02. (a) The amount of the GEF Trust Fund Grant may be withdrawn from the 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 carrying out Part B of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant (other than Part B2(a)(vi) of the Project); and (ii) amounts paid (or, if the Bank shall so agree, to be made) on account of withdrawals made under Community Conservation Grants under Part B2(a)(vi) of the Project to meet the reasonable cost of goods and services required for the Community Conservation Activity in respect of which withdrawal from the GEF Trust Fund Grant is requested.

(b) The Recipient 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 August 31, 2009 or such later date as the Bank shall establish. The Bank 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 SFA and the Project Provinces with due diligence and efficiency and in conformity with appropriate financial, 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 Bank shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. The Recipient shall make available to each of the Project Provinces the portion of the proceeds of the GEF Trust Fund Grant corresponding to the cost of goods, works and services required for its activities under Part B of the Project and to be financed out of the GEF Trust Fund Grant, on terms and conditions acceptable to the Bank.

Section 3.03. Except as the Bank 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 Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

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

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

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 Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; 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 GEF Trust Fund 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 Bank has received the audit report for the fiscal year in which the last withdrawal from the 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.

ARTICLE V

Remedies of the Bank

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

(a) Any of the Project Provinces shall have failed to perform any of its obligations under its respective Implementation Arrangement.

(b) As a result of events which have occurred after the date of the GEF Grant Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Project Province will be able to perform its obligations under its respective Implementation Arrangement.

(c) (i) Subject to subparagraph (ii) of this paragraph, (A) after approval of the EU Grant by the EU Asia and Latin America Committee the EU Grant shall have been withdrawn without becoming effective, or (B) after effectiveness, the right of the Recipient to withdraw the proceeds of the EU Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the EU Grant Agreement;

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

(d) The right of the Recipient to withdraw the proceeds of the Loan shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Loan Agreement.

Section 5.03. Without limitation to Section 5.01 of this Agreement and Section 6.02 of the General Conditions, if either event specified in paragraph (c)(i) of Section 5.01 of this Agreement shall occur, the Recipient and the Bank shall, at the request of either party, exchange views on how best to accomplish the purposes of the Grant.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following event is specified as a condition to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions, namely that the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or the right of the Recipient to make withdrawals thereunder, except only the effectiveness of the GEF Grant Agreement, have been fulfilled.

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 Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled 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

Facsimile:

8610-6855-1125

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) 64145 (MCI)	(202)477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zou Jiayi

Authorized Representative

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

By /s/ Yukon Huang

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

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

Amount of the GEF Trust Fund Grant Allocated (Expressed in	% of Expenditures
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<u>Category</u>	<u>SDR Equivalent)</u>	<u>to be Financed</u>
(1) Works	960,000	65%
(2) Goods and vehicles	2,140,000	100% of foreign expenditures 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Consultants' services	2,020,000	100%
(4) Training and research, Field survey, management plan and maps	6,210,000	90%
(5) Incremental operating Costs	960,000	100%
(6) Community conservation grants under Part B.2(a)(vi) of the Project	280,000	60%
(7) Unallocated	230,000	
TOTAL	12,800,000	

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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Recipient for goods or services supplied from said region and expenditures in the currency of the Macau Special Administrative Region of the Recipient for goods or services supplied from said region shall be deemed "foreign expenditures";

(b) the term "local expenditures" means any expenditures that are not foreign expenditures; and

(c) the term "incremental operating costs" means the costs incurred by the project management offices maintained by the Recipient and the Project Provinces in accordance with paragraph B.1 of Schedule 4 to this Agreement in respect of office supplies and communications,

staff travel and subsistence in carrying out field supervision of Project activities.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) Community Conservation Grants under Category (6), until the respective community resources management plan, in a form satisfactory to the Bank, under which a Community Conservation Grant is to be made, has been received by the Bank.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts not exceeding \$200,000 equivalent each; (b) goods and vehicles under contracts not exceeding \$200,000 equivalent each; (c) consultants' services provided by firms under contracts not exceeding \$50,000 equivalent each; (d) consultants' services provided by individuals under contracts not exceeding \$50,000 equivalent each; and (e) field surveys, management plans and maps, Community Conservation Grants, training and research, and incremental operating costs, regardless of the cost thereof; in each case under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. If the Bank shall have determined at any time that any payment made from the GEF Trust Fund Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Bank, refund to the Bank for deposit into the 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 Recipient to promote development and management of the Recipient's forest resources and to protect the natural environment through the development and adoption of viable, participatory and locally-managed systems for conservation, management and sustainable use of the Recipient's forest resources and associated bio-diversity.

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

Part A: Natural Forest Management

1. Development, testing and introduction of natural forest management models in selected areas within the Project Provinces, through:

(a) conducting resource assessments, establishing locally relevant forest zoning and classification criteria, developing forest resource inventory systems, developing a resource management database and carrying out forest re-zoning and re-classification based on updated

field information;

(b) conducting a review of and developing recommendations for revisions to the current legal and regulatory framework for timber and fuel wood production;

(c) carrying out studies of the economic valuation of forest products and services, appropriate mechanisms to charge consumers for benefits derived from forests and market development and marketing of forest goods and services and the operation of market intelligence systems;

(d) revising the SFA manual on forest management planning, compiling a participatory forest management plan based on a co-management process, detailed harvesting plans, diagnosis of status of secondary forest areas and land proposed for conversion and testing of detailed land use options, formalizing co-management arrangements and contracts among stakeholders, and implementing forest management plans; and

(e) monitoring and evaluation of forest management plan implementation.

2. Enabling local communities to improve livelihoods and develop sustainable forest management land-use practices through:

(a) preparing village development plans including (i) a draft map showing boundaries of village groups, forest management units and existing and proposed village infrastructure; (ii) basic population and agricultural data; (iii) micro-credit options and training and infrastructure needs; and (iv) estimates of participating households for each activity to be funded through small household loans;

(b) improvement of village infrastructure pursuant to village development plans through the identification and implementation of specific small-scale investment projects;

(c) providing micro-credit to households and informal groups, including: (i) establishment of township micro-credit institutions and village micro-credit boards; (ii) development of guidelines for micro-credit application and approval based on technical appropriateness, technical capabilities and environmental impact; (iii) provision of small household loans to individual households or informal groups to finance productive activities such as animal production, cash crops and tree crops, small-scale processing, transportation and services;

(d) providing training to households, including: (i) training in basic farming skills; (ii) training in activities funded with micro-credit, household cash flow management and forest management; and (iii) functional literacy courses in low literacy areas;

(e) carrying out specific technical studies, including: (i) a study of rural energy, to assess fuel wood usage and trends of consumption, rural electricity usage and future prospects

for energy savings; and (ii) a study of animal carrying capacity in selected areas; and

(f) monitoring and evaluation of village development plan implementation.

3. Carrying out of a program of training and information dissemination, including:

(a) provision of training to forest administration staff in planning, organization, supervision and monitoring of natural forest management activities; and

(b) dissemination to the public of the benefits from improved natural forest management through press releases and site visits to demonstrate natural forest management techniques.

4. Carrying out of a program of training for laid-off workers of state-owned forest enterprises in order to facilitate alternative employment, including:

(a) development of an overall training plan for state-owned forest enterprise employees in forest management and vocational training; and

(b) implementation of the overall training plan, including: (i) contracting for delivery of training courses; (ii) supervision of training delivery; (iii) monitoring and evaluation of training performance; and (iv) assessment of training impact.

Part B: Protected Areas Management

1. Developing and implementing participatory approaches to nature reserve planning and management in the Project Provinces, including:

(a) development of nature reserve management plans for each of the Project Nature Reserves, through enhancement of nature reserve feasibility studies;

(b) preparation of baseline ecosystems maps for the Project Nature Reserves, including information on distribution and diversity of ecosystems, management zones, local road networks and village location;

(c) carrying out a program of strengthening field-level management systems through: (i) participatory nature reserve boundary survey and demarcation; (ii) provision of equipment for field protection staff; (iii) provision of improved communications technology and equipment to facilitate nature reserve administration; and (iv) construction of small-scale infrastructure for Project Nature Reserves, such as guard posts;

(d) developing proposals for and carrying out applied research in each Project

Nature Reserve to promote effective nature reserve management; and

(e) carrying out of bio-diversity surveys of selected areas of western Sichuan Province.

2. Carrying out of a program to promote community-based nature conservation through:

(a) development and implementation in selected villages of demonstration activities linking bio-diversity conservation with sustainable income generation through: (i) carrying out of a survey of community use of natural resources and critical threats, conflicts and community issues; (ii) establishing and training leading groups; (iii) selecting co-management demonstration sites; (iv) establishing a management forum within the community; (v) preparing community resource management plans; (vi) establishing and implementing a program to provide community conservation grants to finance specific investment projects to address needs identified in the respective community resource management plan; and (vii) monitoring and evaluation of the implementation of the demonstration activity;

(b) development and implementation of a community conservation education and public awareness plan;

(c) conducting an assessment of forest-based household fuel demand and demonstration of appropriate energy conservation technologies;

(d) assessment of the nature and extent of damage to crops caused by wildlife and development and demonstration of appropriate wildlife management methods to mitigate negative wildlife impacts; and

(e) identification and demonstration of income-generating alternatives to the use of forest resources, including the provision of training to communities and households in management of identified community or household economic activities.

3. Carrying out of a program of training to improve the capacity of Project Nature Reserve staff and Office of Wildlife and Plant Protection staff in the Project Provinces in routine nature reserve management skills, including:

(a) provision of training to Project Nature Reserve staff in all aspects of nature reserve operation;

(b) strengthening training capacity through the provision of training to trainers in the Project Provinces; and

(c) strengthening nature reserve management through provision of training in management methods and developing appropriate organizational management structures within

the Office of Wildlife and Plant Protection of the Forestry Department of each Project Province, responsible for nature reserve planning, community-based conservation and training coordination.

4. Strengthening the Recipient's capacity for Project implementation through:

(a) provision of training to Project implementation staff in project management, procedures, English language, clerical skills, computer use and maintenance, accounting and financial management and training program coordination;

(b) carrying out of studies for: (i) development of a protected areas classification system including watershed protection forests and forest parks, (ii) evaluation and revision of specific regulations for nature reserve management zones, and (iii) development of a standardized methodology for evaluating effectiveness of nature reserve management; and

(c) monitoring and evaluation of Project impacts on bio-diversity and on communities that have an impact on nature reserve resources and are impacted by the nature reserves.

Part C: Plantation Establishment

1. Establishment of approximately 115,090 hectares of commercial wood plantations for solid wood, construction timber, reconstituted panels and pulp in the Project Provinces.

2. Establishment of approximately 57,940 hectares of economic tree crops, including fruit, nut and medicinal trees and rattan in the Project Provinces.

3. Carrying out of a program of thinning of approximately 61,330 hectares of existing plantations in the Project Provinces.

4. Strengthening the Recipient's capacity to provide technical support services through:

(a) carrying out of a program to introduce improved genetic materials and nursery management technologies and to support the production of seedlings required under the Project;

(b) carrying out of a training and extension program to disseminate key research findings and technical silvicultural guidelines to Project implementation staff and Project beneficiaries, including preparation of new training and extension materials, development and implementation of domestic training programs for Project implementation staff and Project beneficiaries and development and implementation of a program of overseas training and study tours for Project implementation staff;

(c) improving rural infrastructure in the Project Provinces through: (i) construction of forest trails and small guard or storage sheds by local communities and construction of limited irrigation facilities; (ii) carrying out of a study of rural marketing infrastructure to identify priority investments to be financed through the provision of sub-loans; and (iii) financing, through the provision of sub-loans, of specific investment projects to develop and expand small-scale marketing infrastructure for post-harvest treatment and marketing of economic tree crop production; and

(d) carrying out a program of monitoring and evaluation of Project implementation.

* * *

The Project is expected to be completed by February 28, 2009.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods and works 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 (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Special Administrative Region of the Recipient).

Part C: Other Procurement Procedures

1. National Competitive Bidding

Motorcycles, field survey equipment and office equipment, estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$990,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$580,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$1,870,000 equivalent, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph in the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for goods or works estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for goods to be procured by each Project Province in accordance with the procedures referred to in paragraph C.2 of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Recipient 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 Recipient shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for carrying out research, preparing management plans and mapping estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for carrying out research, preparing management plans and mapping estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,520,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines estimated to cost less than \$50,000 equivalent per contract and services of two long-term sociologists under Part B.2 of the Project, up to an aggregate amount not to exceed \$3,610,000 equivalent, may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for estimated to cost the equivalent of \$35,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$35,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

A. Project Monitoring and Evaluation

1. The Recipient shall:

(a) (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof, (ii) prepare and furnish to the Bank, not later than December 31, 2002, for the Bank's review and comment, a plan for the monitoring and evaluation of the carrying out of Part B of the Project, and (iii) thereafter implement said monitoring and evaluation plan, taking into account the Bank's comments thereon;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, (i) with respect to Part B of the Project, on or about March 31 and September 30 in each year, commencing March 31, 2003, and (ii) with respect to Part C of the Project, on or about March 31 and September 30 in each year, commencing March 31, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the physical and financial progress achieved in the carrying out of the Project during the calendar semester 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;

(c) review with the Bank promptly thereafter, each report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter;

(d) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 30, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the physical and financial 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

(e) review with the Bank promptly thereafter the report referred to in paragraph (d) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

B. Project Management and Implementation

1. For the purposes of carrying out Part B of the Project, the Recipient shall:

(a) maintain at all times during Project implementation the Project Office, with terms of reference and resources satisfactory to the Bank and competent staff in adequate numbers; and

(b) ensure that each Project Province shall maintain at all times during Project implementation a provincial project management office within its Office of Wildlife and Plant Protection and shall cause each Project Nature Reserve to maintain its project management group, in each case with terms of reference and resources satisfactory to the Bank and competent staff in adequate numbers.

2. For the purpose of carrying out Part C of the Project, the Recipient shall maintain at all times during Project implementation project management offices at the national, provincial and county level, with terms of reference and resources satisfactory to the Bank and competent staff in adequate numbers.

3. The Recipient shall: (a) enter into an Implementation Arrangement with each Project Province, obligating such Project Province to carry out its responsibilities with respect to the Project in accordance with the provisions of this Agreement and to take such additional actions applicable to it as are specified in this Schedule 4, in accordance with the provisions thereof; and (b) without limitation on any of its other obligations under this Agreement, (i) cause each Project Province to perform, in accordance with the provisions of the Implementation Arrangement to which said Project Province is a party, all of the obligations of said Project Province therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Project Province to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance; and (c) exercise its rights under each Implementation Arrangement in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the Loan or GEF Trust Fund Grant, and except as the Bank shall otherwise agree, not assign, amend, abrogate, or waive any Implementation Arrangement or any provision thereof.

C. Protected Areas Management

Nature Reserve Management Plans

1. The Recipient shall:

(a) prepare, in accordance with guidelines acceptable to the Bank and furnish to the Bank for review and comment, a nature reserve management plan, incorporating a time bound implementation schedule, description of required civil works and environmental assessment, no later than (i) December 31, 2004 for Jinfengling Nature Reserve, Minshan Cluster and Motianling Cluster and (ii) December 31, 2005 for Wulingshan Cluster, Fanjingshan Nature

Reserve and Nujiang Nature Reserve;

(b) thereafter, carry out said Nature Reserve Management Plans taking into account the Bank's comments thereon.

2. No civil works under a Nature Reserve Management Plan shall be commenced unless and until such plan has been reviewed and approved by the Bank.

Community-Based Conservation

3. The Recipient shall cause the Project Provinces to establish, in communities selected in accordance with guidelines satisfactory to the Bank, a program for the provision of Community Conservation Grants in order to finance Community Conservation Activities identified in a Community Resource Management Plan for each such community, on terms which shall include the following:

(a) Community Conservation 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;

(b) Community Conservation Grants shall be approved by the Office of Wildlife and Plant Protection of the respective Project Province; and

(c) each Community Conservation Grant shall be made under a contract between the beneficiary individual or group and the respective Project Nature Reserve administration, on the basis of a model contract acceptable to the Bank, which shall specify that goods and services required for the investment and to be financed out of the proceeds of said grant shall be procured in accordance with standard local commercial practices acceptable to the Bank.

4. The Recipient shall design and carry out demonstration activities under Part B.2(c) and (d) of the Project, relating to wildlife management systems and energy conservation, respectively, in accordance with guidelines acceptable to the Bank, including problem analysis, proposed actions to be taken and demonstration activity budget.

5. The Recipient shall cause each Project Nature Reserve to: (a) prepare, in accordance with guidelines acceptable to the Bank, prior to the commencement of community education activities under Part B.2(b) of the Project, a community conservation education program, including identification of its goals and objectives, determination of target audiences and characteristics, a description of the proposed education activities, justification for inclusion of activities in the program, the expected outputs and impacts of the program and a program budget; and (b) thereafter, carry out said program.

Institutional Strengthening

6. The Recipient shall: (a) prior to the commencement of training activities under Part B.3 of the Project, and in any event not later than June 30, 2003, prepare and furnish to the Bank for its review and comment, a proposed program for the provision of in-service training to staff of the Project Nature Reserves; and (b) thereafter, carry out said program taking into account the Bank's comments thereon.

7. The Recipient shall carry out the policy studies under Part B.4(b) of the Project in accordance with terms of reference and a schedule satisfactory to the Bank and shall furnish each study to the Bank for its review and comment promptly upon completion thereof.

Process Framework and EMDP

8. The Recipient shall carry out Part B of the Project in accordance with the Process Framework and the EMDP and, without any limitation thereto, shall take timely action to ensure that any adverse social impacts of the Project are effectively mitigated in a manner satisfactory to the Bank.

Annual Work Plans

9. The Recipient shall:

(a) by December 31 in each year, commencing December 31, 2002, furnish to the Bank for its review and comment, a proposed annual work plan and budget for activities to be implemented in the following calendar year under Part B of the Project; and

(b) thereafter, implement such annual work programs and budget taking into account the Bank's comments thereon.

D. Plantations Establishment

Afforestation

1. In carrying out Part C of the Project, the Recipient shall ensure that: (a) all afforestation sites shall be established in accordance with afforestation models acceptable to the Bank; (b) all sites to be converted to plantation are outside of intact forest, will not significantly convert or degrade natural habitats or adversely affect cultural property, following an objectively monitorable process acceptable to the Bank; (c) all afforestation activities, including land tenure arrangements, production arrangements, and project implementation and cooperation arrangements involving afforestation entities, shall be carried out in accordance with guidelines acceptable to the Bank; and (d) the project management office of each Project Province shall finalize all technical design plans for afforestation sites, in accordance with guidelines acceptable to the Bank not later than December 31, 2002, and shall thereafter carry out said afforestation activities in accordance with such plan.

2. The Recipient shall ensure that: (a) all seedlings utilized in Part C of the Project shall conform to standards specified in the Planting Material Development Plan dated April 10, 2001 prepared by PMC; (b) all nurseries utilized in Part C of the Project shall operate in accordance with guidelines specified in the Nursery Management Guidelines dated April 10, 2001 prepared by PMC; and (c) the PMC shall, not later than December 31 in each year, commencing December 31, 2002, prepare and furnish to the Bank for review and comment an evaluation report for such year and a work plan for the subsequent calendar year, in each case with respect to planting stock development and nursery management, and thereafter carry out said work plan in each year taking into account the Bank's comments thereon.

3. The Recipient shall ensure that forest trails and guard or storage sheds shall be constructed in accordance with technical design criteria acceptable to the Bank.

Institutional Strengthening

4. The Recipient shall: (a) ensure that training and study tours under Part C of the Project shall be carried out in accordance with the Training and Extension Plan dated April 10, 2001 prepared by PMC; and (b) not later than March 31 in each year, commencing March 31, 2003, prepare and furnish to the Bank a report on the progress achieved to the end of the previous calendar year in the implementation of said Training and Extension Plan.

5. The Recipient shall ensure that each Project Province shall compile, not later than December 31, 2002, and update annually thereafter, prices for each of the proposed economic tree crops to be established under Part C of the Project based on roadside prices in order to monitor price fluctuations.

6. The Recipient shall ensure that each Project Province shall conduct a market analysis and revised economic and financial internal rate of return calculations, satisfactory to the Bank, prior to any change in a single species of economic tree crop to be planted under the Project over an area of 1000 hectares in such Project Province.

7. The Recipient shall: (a) cause each Project Province to ensure that county level project management offices intending to apply for a Marketing Infrastructure Sub-loan shall, not later than March 31, 2006, carry out a study, under terms of reference acceptable to the Bank, on the specific marketing arrangements for economic tree crop production under Part C of the Project; and (b) not later than June 30, 2006, prepare and furnish to the Bank for its review and comment a summary of all such studies.

Onlending Arrangements

8. The Recipient shall cause each of the Project Provinces to ensure that the portion of the proceeds of its respective Loan Allocation used to finance goods and services for Project beneficiaries shall be made available to said beneficiaries on the following terms and conditions: (a) an amount so made available to a beneficiary shall be repaid by said beneficiary over the repayment period, inclusive of the grace period, as specified in Section 3.02(a)(i) of the Loan Agreement; (b) interest shall be payable on the principal amount made available and withdrawn

and outstanding from time to time at the rate specified in Section 3.02(a)(ii) of the Loan Agreement; (c) a commitment charge shall be payable on the principal amount made available not withdrawn from time to time at the rate specified in Section 3.02(a)(iii) of the Loan Agreement; and (d) an exchange risk fee, if any, not to exceed two percent per annum, shall be payable on the principal amount so made available in the currency of the Recipient, provided, however, that no such exchange risk fee shall be payable by household beneficiaries.

Marketing Infrastructure Sub-loans

9. The Recipient shall ensure that the Project Provinces shall make Marketing Infrastructure Sub-loans in accordance with procedures, and on terms and conditions, acceptable to the Bank, which shall include the terms set forth in paragraph 10 of this Part.

10. Each Marketing Infrastructure Sub-loan:

(a) shall be made exclusively for a Marketing Sub-project which: (i) is located within a Project County and is designed to market economic tree crop production under Part C of the Project; (ii) has been identified as a priority investment in the county level marketing study to be prepared under Part C.4(c)(ii) of the Project and has been determined to be financially viable and technically feasible on the basis of a feasibility study conducted in accordance with guidelines acceptable to the Bank; and (iii) is estimated to cost no more than \$150,000 equivalent;

(b) shall not exceed 75% of the total estimated cost of the Marketing Sub-project in respect of which said Sub-loan is to be made;

(c) shall be made to a Rural Marketing Group which shall: (i) have established to the satisfaction of the Recipient and the relevant Project Province, on the basis of guidelines acceptable to the Bank, that such Rural Marketing Group is creditworthy and has the capacity to implement the Marketing Sub-project in respect of which said Sub-loan is to be made; and (ii) have committed to contribute, by way of equity, not less than 25% of the total estimated cost of the Marketing Sub-project in respect of which the Marketing Infrastructure Sub-loan is to be made; and

(d) shall be made on terms whereby the Project Province shall obtain, by written contract with the Rural Marketing Group to which said Marketing Infrastructure Sub-loan is to be made or by other appropriate legal means, rights adequate to protect the interests of the Recipient, the Bank and such Project Province, including the right to: (i) require the Rural Marketing Group to carry out and operate the Marketing 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 Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement; and (B) such goods and services shall be used exclusively in the carrying out of the Marketing Sub-project in respect of which the Marketing Infrastructure Sub-loan is to be made; (iii) inspect, by itself or jointly with representatives of the Bank, if the Bank shall so request, such goods and the sites, works, plans and construction included in the Marketing Sub-project,

the operation thereof, and any relevant records and documents; (iv) require that the Rural Marketing Group shall take out and maintain such insurance against such risks and in such amounts as shall be consistent with sound business practice; (v) obtain all such information as the Bank or the Project Province shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Rural Marketing Group and to the benefits to be derived from the Marketing Sub-project; and (vi) suspend or terminate the right of the Rural Marketing Group to the use of the proceeds of the Loan upon failure by such Rural Marketing Group to perform its obligations under its contract with the Project Province.

11. The Recipient shall cause each Project Province to exercise its rights in relation to each Marketing Infrastructure Sub-loan in such manner as to protect the interests of the Recipient, the Bank and such Project Province and to achieve the purpose of the Marketing Sub-project in respect of which the Marketing Infrastructure Sub-loan has been made.

Environment and Resettlement

12. The Recipient shall carry out Part C of the Project in accordance with the measures described in the Environmental Protection Guidelines and the Pest Management Plan and, without any limitation thereto, shall take timely action to ensure that any adverse environmental impacts of the Project are effectively mitigated in a manner satisfactory to the Bank.

13. The Recipient shall ensure that if, as a result of any works to be carried out under the Project, any persons would suffer the involuntary loss of shelter, productive assets, access to productive assets, income or means of livelihood, the relevant Project Province shall prepare or cause to be prepared a resettlement action plan for the compensation, rehabilitation and resettlement of persons affected by the Project in accordance with the policies, planning principles, institutional arrangements and design criteria set forth in the Policy Framework so as to improve the living standards and productive capacity of such persons.

Annual Work Plans

14. The Recipient shall:

(a) by December 31 in each year, commencing December 31, 2002, furnish to the Bank for its review and comment, a proposed annual work program and budget for activities to be implemented in the following calendar year under Part C of the Project; and

(b) thereafter, implement such annual work programs and budget taking into account the Bank's comments thereon.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3), (4), (5) and (6);

(b) the term “eligible expenditures” means expenditures 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 GEF Trust Fund Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to \$1,800,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$900,000 until the aggregate amount of withdrawals from the GEF Trust Fund Grant Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Part B of the Project shall be equal to or exceed the equivalent of SDR 2,000,000.

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

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient 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 Recipient, withdraw from the GEF Trust Fund 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 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 Recipient 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 Recipient, withdraw from the GEF Trust Fund 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 Bank from the GEF Trust Fund 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 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 Recipient directly from the 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 Recipient 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 Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the 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 GEF Trust Fund Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Part B of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Recipient. 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 Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

