

CONFORMED COPY

CREDIT NUMBER 2198 KE

(Forestry Development Project)

between

REPUBLIC OF KENYA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 21, 1991

CREDIT NUMBER 2198 KE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 21, 1991, between REPUBLIC OF KENYA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to obtain from the European Community (EC) a grant (the EC Grant) in an amount equivalent to fifteen million eight hundred thousand dollars (\$15,800,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the EC Grant Agreement) to be entered into between the Borrower and EC;

(C) the Borrower intends to obtain from the Swiss Development Cooperation (SDC) a grant (the SDC Grant) in an amount equivalent to five million six hundred thousand dollars (\$5,600,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the SDC Grant Agreement) to be

entered into between the Borrower and SDC;

(D) the Borrower intends to obtain from Overseas Development Administration (ODA) a grant (the ODA Grant) in an amount equivalent to \$13,700,000 to assist in financing part of the Project on the terms and conditions set forth in an agreement (the ODA Grant Agreement) to be entered into between the Borrower and ODA;

(E) the Borrower intends to obtain from the Finnish International Development Agency (FINNIDA) a grant (the FINNIDA Grant) in an amount equivalent to \$6,000,000 to assist in financing part of the Project on the terms and conditions set forth in an agreement (the FINNIDA Grant Agreement) to be entered into between the Borrower and FINNIDA; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated May 24, 1990, and June 8, 1990, between the Borrower and the Association;
- (b) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (c) "MOA" means the Borrower's Ministry of Agriculture;
- (d) "MENR" means the Borrower's Ministry of Environment and Natural Resources;
- (e) "FD" means the Forest Department with MENR;
- (f) "KEFRI" means the Kenya Forestry Research Institute;
- (g) "KFC" means the Kenya Forestry College at Londiani under FD;
- (h) "FESD" means the Forestry Extension Services Division of the FD;
- (i) "NFMD" means the Natural Forest Management Division of the FD;
- (j) "NGO" means Non-Governmental Organization; and
- (k) "FY" means the Borrower's Fiscal Year which runs from July 1 to June 30.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower,

on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirteen million nine hundred thousand Special Drawing Rights (SDR 13,900,000).

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

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in the Central Bank of Kenya on terms and conditions satisfactory to the Association, 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.

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

Section 2.03. The Closing Date shall be September 30, 1997, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent ( $1/2$  of 1%) per annum.

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 15 and October 15 commencing April 15, 2001, and ending October 15, 2030. Each installment to and including the installment payable on October 15, 2010, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal

amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

### ARTICLE III

#### Execution of the Project

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

- (i) carry out Parts A through E and G of the Project through MENR with due diligence and efficiency and in conformity with appropriate forestry practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) cause KEFRI to carry out Part F of the Project with due diligence and efficiency and in conformity with appropriate forestry research practices, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable KEFRI to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by KEFRI.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts A through E and G of the Project and shall cause KEFRI to carry out Part F of the Project, all in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Association and the Borrower hereby agree that the obligations set forth in Sections 9.04 through 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part F of the Project shall be carried out by KEFRI.

Section 3.04. The Borrower shall not later than July 31, 1991, prepare a Forestry Policy Framework and by June 30, 1993, adopt a new Forestry Policy, satisfactory to the Association.

#### ARTICLE IV

##### Financial Covenants

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

(b) The Borrower shall:

- (i) have its records and accounts referred to in paragraph (a) of this Section, including those of the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than nine months after the end of each such year, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records, accounts, financial statements and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association'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

##### Other Covenants

Section 5.01. The Borrower shall cause KEFRI:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial and forestry research practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and forestry research practices.

#### ARTICLE VI

##### Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified:

- (a) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

#### ARTICLE VII

##### Effective Date; Termination

Section 7.01. 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:

- (a) the Borrower has finalized a management strengthening arrangement for FD headquarters with a suitable organization;
- (b) the Borrower has prepared an annual work program, satisfactory to the Association for the first fiscal year 1991/1992;
- (c) the Borrower has submitted to the Association a report, satisfactory to the Association, on labor-productivity of the workforce permanently employed in the Forest Department;
- (d) the Borrower has submitted to the Association copies of the audit reports prepared by independent auditors acceptable to the Association for the Third Forestry Project (Credit Number 1213 and Loan Number 2098); and

(e) the Borrower has submitted evidence, satisfactory to the Association, showing that adequate offices for FD have been constructed.

Section 7.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VIII

##### Representatives of the Borrower; Addresses

Section 8.01. The Minister at the time responsible for finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
P.O. Box 30007  
Nairobi, Kenya

Cable address:

FINANCE  
Nairobi

Telex:

22921  
MINFIN-KE

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

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

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.

REPUBLIC OF KENYA

By /s/ D. D. Afande

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox

Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Vehicles	2,230,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
(2) Furniture and equipment	1,600,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
(3) Civil works	2,510,000	50%
(4) Incremental operating costs	2,025,000	100% up to the aggregate equivalent to SDR 300,000 for FY 1991; up to aggregate equivalent to SDR 900,000 for FY 1992; up to aggregate equivalent to SDR 1,500,000 for FY 1993; up to the aggregate equivalent to SDR 1,800,000 for FY 1994; up
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
		to the aggregate equivalent to SDR 1,925,000 for FY 1995 and up to the aggregate equivalent to SDR 2,025,000 in FY 1996
(5) Training and studies	700,000	100%
(6) Consultants' services	2,440,000	100%
(7) Refunding of Project Preparation Advance	1,050,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	<u>1,345,000</u>	



TOTAL 13,900,000  
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "operating costs" means the incremental costs incurred by the departments or agencies of the Borrower responsible for the carrying out of the Project, related to the operation and maintenance of buildings, offices, vehicles and equipment.

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

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (i) enhance conservation and protection of indigenous forest resources as well as soil and water on forest, farm and range land; (ii) alleviate the accelerating fuelwood deficiency; (iii) improve the efficiency and financial viability of timber production; and (iv) establish a framework for the forestry subsector's long-term development.

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

#### Part A: Farm Forestry Extension

1. Strengthening the FESD and reorientation of its activities towards extension services to farmers, NGO's and rural target groups.
2. Strengthening of FESD headquarter's staff and establishment of an Extension Monitoring Branch through the provision of training, institutional support and the acquisition of vehicles and equipment.
3. Coordination and monitoring of all on-going pilot schemes in farm forestry extension through the training of field extension staff, development of a standard monitoring system and development of a mechanism for regular information exchange between the pilot schemes and FESD headquarters.
4. Intensification of forest extension in initially two pilot districts, namely Kakamega and Laikipia followed by a third district, Samburu.
5. In-service training in forestry extension for FESD field staff and the MOA extension staff.
6. Provision of materials, including plastic bags, fertilizer, and seeds for seedling production in FESD nurseries outside the pilot districts.

#### Part B: Indigenous Forest Management and Conservation

1. Strengthening of indigenous forest management and conservation including in-service training for NFMD field staff, and acquisition of vehicles, equipment and materials and rehabilitation of forest station buildings.

2. (a) Regeneration and enrichment of degraded indigenous forests, rehabilitation of about 460 kilometers of forest roads, maintenance of about 960 kilometers of roads, repair of graders, acquisition of equipment for topographical survey, permanent demarcation of all forest boundaries in Gazetted and Ungazetted Forest Reserves, and boundary planting near villages.

(b) Construction of about 250 conservation posts, acquisition of tools and equipment for rehabilitation or construction of firebreaks and game moats.

3. Replanting about 2,700 hectares and enrichment planting over 2,700 hectares with indigenous species with commercial value.

4. Carrying out of an inventory on ecology, timber resources and socio-economic aspects of Gazetted and Ungazetted Forest Reserves classified as "natural forests" and larger blocks of indigenous forests; ranking of conservation priorities and preparation of management recommendations for inclusion in the Forestry Master Plan through the provision of technical assistance vehicles and equipment.

5. Preparation of and carrying out pilot projects in three threatened areas of ecological importance, in Arabuko-Sokoke, Kakamega and Mau Forest areas, including the acquisition of vehicles and motorcycles, construction of staff houses and offices, and acquisition of office and field equipment.

#### Part C: Industrial Plantations Development

1. Strengthening of FD's plantation establishment and maintenance capacity through in-service training in plantation management, planning and operations of FD field staff. Acquisition of vehicles, (including standard trailers and tanker-trailers), and the rehabilitation of other vehicles.

2. Rehabilitation of forest station buildings and construction of about fifty new forest guard posts and acquisition of basic survey and mensuration equipment.

3. Rehabilitation and upgrading of the fire protection system through the construction of fifty fire towers, acquisition of fully equipped fire tenders with tanks, pick-up trucks and fire fighting equipment, and acquisition and repair of communication radio sets.

4. Replanting of about 3,300 hectares annually of clear felled areas, new planting of 700 hectares annually from the second to the sixth year of Project implementation, silvicultural maintenance operations over the entire plantation estate of about 170,000 hectares.

5. Rehabilitation of about 1,680 kilometers of forest roads in priority areas in the plantations. Maintenance of about 3,200 kilometers of roads. Acquisition and rehabilitation of vehicles, including tipping-trucks.

6. Vocational training for all machinery operators, and technical and management training to higher level staff.

7. Strengthening the system of royalty collection and the Forest Inventory Section. Acquisition of vehicles, and computing and field equipment.

#### Part D: Strengthening of FD's Central Functions

1. Improvement of FD's technical and management skills and of its capacity in planning, policy formulation, and implementation, supervision and monitoring of forestry investments through staff training, management support and technical assistance.

2. Redefining FD's role and responsibilities in relation to the private sector.

3. Strengthening of FD headquarter functions, including management and technical specialist training.
4. Acquisition of vehicles, equipment and furniture for offices of FD.
5. Establishment of an Engineering Unit at FD headquarters to plan and supervise matters related to FD roads and transport and to take responsibility for the maintenance of FD's fleet of plant and vehicles including training of all staff of the Unit.
6. Acquisition of vehicles, improvement of workshop facilities and acquisition of repair and service tools and equipment, and the installation of a new radio-communications network.

Part E: Forestry Education

1. Reorientation of KFC programs towards extension/farm forestry, and modern management of plantation and indigenous forests, including in-service training of KFC teachers.
2. Construction of new staff houses, acquisition of vehicles and reconditioning of existing vehicles for student and staff transportation and acquisition of teaching equipment.
3. Refurbishment of existing dormitories, and construction of a senior staff hostel.

Part F: Forest Research

1. Implementation by KEFRI of the first stage of its long-term Strategic Plan 2000.
2. Improvement of research facilities and expansion of office, laboratory, greenhouse and other facilities and staff housing at KEFRI headquarters at Muguga, the Forest Products Research Stations at Gede and Turbo, and Field Research Centres at Kibwezi and Londiani.
3. Acquisition of furniture, office equipment, computers, an equipment repair workshop, vehicles, motorcycles, reconditioning of existing vehicles and construction of garage space and vehicle repair workshops.
4. Training of KEFRI staff through in-service courses and the provision of fellowships for post-graduate studies in forestry and related fields.

Part G: Forestry Subsector Master Plan

1. Formulation of a long-term development strategy for the sub-sector (the Forestry Master Plan), and establishment of targets for the implementation of the Plan.
2. Preparation of an action plan with development and institutional support programs.
3. Preparation of investment projects for the implementation of the Forestry Master Plan.
4. Preparation of up-to-date Forest Policy Framework.
5. Improvement of FD's and the forestry's subsector data base, development and installation of planning systems, and improvement of FD's local planning capacity.
6. Training of FD staff in various forestry-related areas through workshops, seminars and scholarships.

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The Project is expected to be completed by March 31, 1997.

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

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

###### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Kenya may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

###### Part C: Other Procurement Procedures

1. Items or groups of items for vehicles and equipment estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$400,000 and civil works estimated to cost the equivalent of \$1,000,000 or less per contract, up to an aggregate amount equivalent to \$4,200,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or groups of items for equipment estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount equivalent to \$150,000 may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

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

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for civil works estimated to cost the equivalent of \$200,000 and for goods and equipment estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Association has authorized withdrawals on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ specialists and consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis 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.

### SCHEDULE 4

#### Implementation Program

1. The Borrower shall establish and maintain until completion of the Project a Project Steering Committee (PSC), which shall comprise a high-level, multi-disciplinary group including representatives of FD, KEFRI, MENR, Moi University, MOA, Ministry of Energy, Ministry of Reclamation and Development of Arid, Semi-Arid and Wastelands, Ministry of Finance, Ministry of Planning and National Development, Office of the President, the wood using industries and NGOs. PSC shall be chaired by the Permanent Secretary, MENR, and have members of at least Department Director or equivalent level. It shall meet at least twice a year. The main functions of PSC shall be to discuss and make recommendations on: (a) progress in implementing the Project; (b) high-level inter-agency coordination; (c) policy issues; and (d) donor coordination.

2. The Borrower shall establish and maintain until completion of the Project a Project Implementation Team (PIT) to be headed by one of FD's Deputy Directors as a full time Project Manager (PM) and shall include the five Headquarters Division Chiefs of FD, the Principal of KFC plus representation in a coordinating role of KEFRI.

3. The PM, assisted by a full-time Assistant Project Manager, shall establish project implementation procedures, guide overall execution and maintain linkages with other public and private organizations in the subsector. The Borrower shall establish a Project Service Unit in FD to service PIT with capacities in management information systems and monitoring, document production, accounting and procurement.

4. The Borrower shall establish a new Extension Monitoring Branch within FESD.

5. Both FD and KEFRI shall prepare detailed Annual Work Programs, including budgets for the Project and related services and in the case of FD also set targets on revenue collection. Such Annual Work Programs shall be furnished to the Association for its review by December 1 in each year.

6. The Project Manager shall develop a computer-based monitoring and evaluation system to generate information for Project Implementation and for semi-annual progress reports (March and September) on physical and financial progress.

7. FD and KEFRI shall by September 30 of each year, prepare for review by the Borrower and the Association an analysis of its past and expected performance against established and agreed key indicators. The Borrower shall, by June 30, 1994, carry out jointly with the Association a mid-term review of the progress of the Project and soon thereafter shall implement the recommendations of

such a review. The review shall cover, inter alia: (a) policy actions on pricing of forest products; (b) status of studies and the Forest Master Plan; and (c) the framework for encouraging the private commercial sector involvement in industrial forestry.

8. FD shall, by June 30, 1991, introduce separate accounts for the Industrial Forestry Departments Operations.

9. FD shall prepare and furnish to the Association by June 30, 1991, a monitorable action plan on measures to improve the productivity of its permanently employed labor force, and shall commence implementation by September 30, 1991.

10. The Borrower shall, by September 30, 1991, complete a review of the method of royalty assessment and promptly thereafter introduce improved methods for the calculation of stumpage rates.

11. The Borrower shall, by June 30, 1991, prepare a monitorable action plan satisfactory to the Association, on measures to eliminate energy pricing and related disincentives to smallholder tree farming and commercial fuelwood growing, which shall include, inter alia, measures to increase FD fuelwood and pole as well as seedlings sales prices.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from the Association (A) provide such additional evidence as the Association may request, or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

(d) Refunds to the Association made pursuant to paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the

Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

