

CONFORMED COPY

**LOAN NUMBER 4808 KZ
GEF TRUST FUND GRANT NUMBER TF055731**

Loan Agreement

(Forest Protection and Reforestation Project)

between

REPUBLIC OF KAZAKHSTAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT**

Dated November 6, 2006

LOAN NUMBER 4808 KZ
GEF TRUST FUND GRANT NUMBER TF055731

LOAN AGREEMENT

AGREEMENT, dated November 6, 2006 between REPUBLIC OF KAZAKHSTAN (the Borrower) AND INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(B) by an agreement of even date herewith (the GEF Trust Fund Grant Agreement), the Bank, acting as the implementing agency of the Global Environment Facility (GEF), has agreed to make a grant, (the GEF Trust Fund Grant), to the Borrower in the amount of five million Dollars (\$5,000,000) to assist in the financing of the Project on the terms and conditions set forth in the GEF Trust Fund Grant Agreement; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan 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 Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of

requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.

(b) Section 6.03(c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Access Restriction Process Framework” means the framework prepared by the Borrower, satisfactory to the Bank, describing the restricted Project sites, affected persons and institutional arrangements, including grievance procedures to mitigate adverse affects of the Project activities, and their monitoring and evaluation arrangements and referred to in paragraph 6 of Schedule 5 to this Agreement;

(b) “Environmental Management Plan” means the plan, satisfactory to the Bank, approved by the Borrower’s State Environmental Expert on June 6, 2005, describing the environmental mitigation, monitoring and institutional measures under the Project and referred to in paragraph 3 of Schedule 5 to this Agreement;

(c) “FHC” means the Borrower’s Forest and Hunting Committee of the Ministry of Agriculture and includes any successor or successors thereto;

(d) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(e) “Framework for Participatory Forest Management” means the framework to be approved by FHC of the Borrower describing procedures, guidelines and policies for the implementation of participatory forest management activities under Part A.3 of the Project and referred to in paragraph 7 of Schedule 5 to this Agreement;

(f) “Framework for Saxaul Rangeland Management” means the framework to be approved by FHC of the Borrower describing sites, procedures, guidelines and policies, including long-term usage rights and harvesting regulations for the saxaul rangeland activities under Part B.2 of the Project and referred to in paragraph 8 of Schedule 5 to this Agreement;

(g) “MoA” means the Borrower’s Ministry of Agriculture and includes any successor or successors thereto;

(h) “MoF” means the Borrower’s Ministry of Finance and includes any successor or successors thereto;

(i) “PCU” means the project coordination unit to be established by the Borrower within the FHC and referred to in paragraph 1 of Schedule 5 to this Agreement;

(j) “Project Advisory Committee” means the committee to be established by MoA of the Borrower and referred to in paragraph 5 of Schedule 5 to this Agreement;

(k) “Pest Management Plan” means the plan for the safe handling, use and disposal of pesticides used during implementation of the Project, which is an integral part of the Environmental Management Plan;

(l) “Procurement Plan” means the Borrower’s procurement plan, dated September 26, 2005, covering the initial eighteen (18) month period (or longer) of the Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of the Project implementation;

(m) “Project Implementation Plan” or “PIP” means the project implementation plan referred to in paragraph 4 of Schedule 5 to this Agreement, as said plan may be amended from time to time with the concurrence of the Bank;

(n) “RPOs” means the three (3) regional project offices in Semey, Irtysh and Kzyl Orda to be established by FHC of the Borrower which will provide PCU with an administrative support and referred to in paragraph 1 of Schedule 5 to this Agreement; and

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to thirty million Dollars (\$30,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for

expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and works required for the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars, a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be November 30, 2012, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than sixty (60) days after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollar for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); and (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower and the Guarantor of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project, through FHC, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, public utility, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower, through FHC, shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall make available for the purposes of the carrying out of the Project an amount not exceeding twenty eight million eight hundred thousand Dollars (\$28,800,000) to be utilized in accordance with the provisions of this Agreement, including its Schedule 4 and the provisions of the GEF Trust Fund Grant Agreement, including its Schedule 3.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods and works required for the Project shall be governed by the provisions of Schedule 4 to this Agreement.

(b) The Borrower, through FHC, shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through FHC, 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 Borrower and the Bank, a plan designed to ensure the continued achievement of the Project objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

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

- (i) retain, until at least one (1) year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 10(b) of Schedule 5 to this Agreement, the Borrower through FHC, shall prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in the Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional event is specified, namely:

- (i) subject to sub-paragraph (ii) of this paragraph:
 - (A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
 - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) sub-paragraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring 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 VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that the GEF Trust Fund Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or the right of the

Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement have been fulfilled.

Section 6.02. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
11 Pobedy Street
Astana 010000
Republic of Kazakhstan

Telex:	Facsimile:
264126 (FILIN)	(7) (3172) 717785

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) or 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 the Astana, Republic of Kazakhstan, as of the day and year first above written.

REPUBLIC OF KAZAKHSTAN

By: /s/ Natalya Korzhova

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Loup Brefort

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>Maximum % of Expenditures to be Financed</u>
(1) Goods under Parts A and B of the Project	18,000,000	80%
(2) Infrastructure construction and rehabilitation civil works under:		
(a) Part A of the Project	3,800,000	80%
(b) Part B of the Project	200,000	80%
(3) Forestry related civil works under:		
(a) Part A of the Project	5,600,000	60%
(b) Part B of the Project	2,400,000	60%
	<hr/>	
TOTAL	<u>30,000,000</u>	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for: (a) expenditures prior to the date of this Agreement; (b) expenditures in respect of Categories (2)(a) and (3)(a) in the table in paragraph 1 of Schedule 1 to this Agreement, unless the Bank has been satisfied, following the results of the field testing on radionuclide contamination, that the Project area under Part A of the Project is found to be safe based on national norms of the Borrower on the radionuclide contamination and does not need to be excluded due to contamination level; and (c) expenditures in respect of any Category set forth in the table in paragraph 1 of this Schedule, unless and until the Borrower shall have paid to the Bank in full the front-end fee referred to in Section 2.04 of this Agreement.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods and works not subject to the Bank's Prior Review, as stipulated in the Procurement Plan, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to develop cost effective and sustainable environmental rehabilitation and management of forest lands and associated rangelands with a focus on the Irtysh pine forest, the dry Aral Seabed and saxaul rangelands.

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

Part A: Irtysh Pine Forest

1. Reforestation of 41,000 ha of forest land by re-establishing seed production areas and applied research on cost-effective nursery, planting and direct seeding technologies (e.g. greenhouses, containers, seed pelleting).
2. Provision of fire management and other forestry support by: (i) providing information, consultation and training on fire management; (ii) strengthening existing facilities for fire prevention and detection, improving lookout towers, communications equipment and rejuvenation of the firebreak network; and (iii) improving facilities for fire suppression including road rehabilitation, provision of fire station equipment and fast-attack vehicles; and (iv) developing a program of thinning and cleaning of forestry, including purchase of vehicles for more effective patrolling to reduce illegal activities, and capacity building in integrated pest management.
3. Forest partnership development by analyzing the potential for environmentally sustainable forest-based enterprises utilizing thinnings, and pilot testing participatory forest management in about sixteen (16) villages.

Part B: Environmental Amelioration in Kyzylorda

1. Planting on the Dry Aral Seabed on 79,000 ha (44,000 with seedlings and if feasible, 35,000 directly seeded) using cost-effective nursery and planting technologies and developing cost-effective direct seeding techniques.
2. Improving management of saxaul rangelands by about thirty (30) demonstrations of a participatory saxaul rangelands program with each demonstration rehabilitating approximately 200 ha, and increasing access to water for grazing animals, or equivalent level of infrastructure support for grazing, on an additional area of about 7500 ha.

Part C: Capacity Building of National Institutions and Project Coordination

1. Improving policy analysis, public expenditure analysis, information facilities and support, including mapping, human resource development, organizational management to strengthen policy and budget decisions, public consultation, inventory, planning, monitoring, staff knowledge and skills, and organizational effectiveness.
2. Provision of grants for innovative forest development sub-projects addressing issues related to forest protection, production and processing.
3. Provision of support to the PCU in the Project coordination and management.

* * *

The Project is expected to be completed by May 31, 2012.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Dollars</u>)*
On each February 15 and August 15 beginning August 15, 2011 through February 15, 2023	1,250,000

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule, except for procurement of goods, works and services (other than consultants' services) to do preparatory work for the Project financed by the Republican Budget of the Borrower, prior to the effectiveness of this Agreement, may be procured in accordance with the Borrower's Law on Procurement dated May 16, 2002, as amended.

B. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than \$1,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions set forth in the Annex to this Schedule.

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Community Participation. Goods and works required for livelihood investments under Part A.3 of the Project referred to in Schedule 2 to this Agreement may be procured on the basis of community participation in accordance with the provisions of the Framework for Participatory Forest Management.

4. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

5. Force Account. Works which the Bank agrees meet the requirements for Force Account may be carried out in accordance with the provisions of said procurement method.

Section III. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Annex
to
SCHEDULE 4**

National Competitive Bidding procedures of the Borrower may be used for procurement of works under the Project provided that the following provisions are complied with:

A. Participation by Government-owned enterprises

Government-owned enterprises in the Republic of Kazakhstan shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

B. Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of goods acceptable to IBRD.

C. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids;

(b) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents;

(c) Domestic preference should not be applied; and

(d) Contracts shall be awarded to qualified bidder having submitted the lowest evaluated substantially responsive bid and no negotiation shall take place.

D. Price Adjustment

Civil works contracts of long duration (for example, more than eighteen (18) months) shall contain an appropriate price adjustment clause.

E. Cancellation of the Bidding Process

Non-recognition of a tender and soliciting new bids can be done only with the prior concurrence of IBRD.

G. Rejection of an Individual Bid

An individual bid shall be rejected only in the following cases:

- (a) the bidder is not qualified;
- (b) the bidder does not accept the correction of an arithmetical error in his bid by the Tender Commission of the procuring entity; and
- (c) the bidder is not responsive to the requirements of the bidding documents.

SCHEDULE 5

Implementation Program

1. The Borrower, through FHC, shall maintain the PCU and the RPOs during the Project implementation with staff whose qualification and terms of reference shall be satisfactory to the Bank and resources adequate to enable it to effectively implement the Project.
2. The Borrower, through FHC, shall ensure that the PCU shall: (a) be responsible for: (i) Project management, coordination and monitoring, including evaluation and reporting to the Project Advisory Committee; (ii) preparation of withdrawal applications under the Loan; (iii) management of the Special Account referred to in Section 2.02(b) of this Agreement; (iv) procurement of goods, works and services; (v) maintenance of records and accounts related to the Project and arranging for the audit thereof; (vi) preparation of an annual work program; and (vii) overall responsibility for accounting, financial reporting and management, and preparing of FMRs for the Project; and (b) provide to the Bank by August 15 and by February 15 of each year, throughout the execution of the Project, a semiannual Project monitoring and evaluation reports, including information on the status of the key monitoring indicators, to assess the efficiency of the Project.
3. The Borrower, through FHC, shall implement the Environmental Management Plan, including the Pest Management Plan, in a manner satisfactory to the Bank and shall provide the Bank with a summary status of the implementation (including results from environmental monitoring) as part of normal Project reporting or when specifically requested by the Bank.
4. The Borrower, through FHC, shall take all necessary measures to implement the Project in accordance with PIP and it shall not assign, amend, abrogate or waive any provision of the PIP without prior approval of the Bank.
5. The Borrower, through MoA, shall, within three (3) months after the signing of this Agreement, establish and thereafter maintain until Project completion, the Project Advisory Committee consisting of the representatives of key ministries, Project implementing agencies, non-governmental organizations, private sector, international organizations and donors involved in forest-related activities which will provide policy advice and guidance during the implementation of the Project.
6. The Borrower, through FHC, shall implement the Project in accordance with principles and procedures set forth in the Access Restriction Process Framework and it shall not assign, amend, abrogate or waive any provision of the Access Restriction Process Framework without prior approval of the Bank.

7. The Borrower, through FHC, shall, not later than December 31, 2006, approve the Framework for Participatory Forest Management, which shall be satisfactory to the Bank, and implement the Project in accordance with principles and procedures set forth in the Framework for Participatory Forest Management and it shall not assign, amend, abrogate or waive any provision of the Framework for Participatory Forest Management without prior approval of the Bank.

8. The Borrower, through FHC, shall, not later than December 31, 2006, approve the Framework for Saxaul Rangeland Management which shall be satisfactory to the Bank, and implement the Project in accordance with principles and procedures set forth in the Framework for Saxaul Rangeland Management and it shall not assign, amend, abrogate or waive any provision of the Framework for Saxaul Rangeland Management without prior approval of the Bank.

9. The Borrower shall provide a report with all relevant data resulting from the testing on radionuclide contamination of the area under Part A of the Project referred to in paragraph 2(b) of Schedule 1 to this Agreement and if the report indicates that additional testing and data is necessary it shall prepare and provide to the Bank one or more similar additional reports in the future. If any of the following report indicates that the radionuclide contamination level exceeds national norms, the Borrower, through FHC, shall take appropriate management measures, including the avoidance of contaminated areas, disclosing the report to the public and undertaking a public awareness campaign on risks associated with contaminated forest areas and products, all satisfactory to the Bank.

10. The Borrower, through FHC, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators acceptable to the Bank, the carrying out the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about October 31, 2009, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by November 30, 2009, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1), (2) and (3) 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, works and services required for the Project and to be financed out of the proceeds of the Loan 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 \$3,000,000 to be withdrawn from the Loan 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 \$1,500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$15,000,000.
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 Borrower 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 Borrower, withdraw from the Loan 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 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 Borrower 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 Borrower, withdraw from the Loan 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 Bank from the Loan 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 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 Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the 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 Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan 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, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

(c) The Borrower 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 Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.