

CONFORMED COPY

LOAN NUMBER 3741 BY

Loan Agreement
(Forestry Development Project)

between

REPUBLIC OF BELARUS

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 25, 1994

LOAN NUMBER 3741 BY

LOAN AGREEMENT

AGREEMENT, dated August 25, 1994, between REPUBLIC OF BELARUS (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "FMIS" means the Forest Management Information System to be developed for the purposes of the Project;

(b) "The Kirov Institute" means the S. M. Kirov Technological Institute in Minsk or any successor thereto;

(c) "PIU" means the Project Implementation Unit to be established and maintained by the Borrower with the Ministry of Forestry or any successor thereto for the purposes of implementation of the Project;

(d) "Prototype Fund" means the separate entity created as investment fund under the applicable law of the Borrower and under the administration of the Ministry of Forestry, for the purposes of prototype development and testing of forestry equipment in cooperation with the local industry;

(e) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(f) The Scientific and Technical Council (STC) or any successor thereto with the same scope of activities is the body designated by the Ministry of Forestry as the advisory oversight and governing body for the scientific, technical and research activities of the Ministry of Forestry.

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 the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of forty-one million nine hundred thousand dollars (\$41,900,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank acceptable to the 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 6 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2000 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 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 2.05. (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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the

rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

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

Section 2.07. 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through its Ministry of Forestry with due diligence and efficiency and in conformity with appropriate administrative, financial, accounting, environmental and forestry 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 shall carry out or cause to be carried out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) For the purposes of implementation of the Project the Borrower shall maintain a project implementation unit (PIU) within the Borrower's Ministry of Forestry, which will be at all times headed by a Project Director and Project Manager with qualifications, terms of reference and experience satisfactory to the Bank, who shall be assisted by qualified staff in adequate numbers.

Section 3.02. 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 Loan shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Financial and Other 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 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 three 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 Loan Account were made on the basis of statements of expenditure, the Borrower 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 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 Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) The Borrower shall, by December 31, 1994, issue the relevant decrees and regulations to further facilitate the liberalization of international trade with wood and wood products in a manner agreed between the Borrower and the Bank.

(b) The Borrower shall establish, by December 31, 1994 a trading facility for wood, wood products and the related services with Articles of Association, policies and supporting regulations agreed between the Borrower and the Bank.

(c) The Borrower shall establish, by October 31, 1994 a stumpage and royalty policy for wood as agreed between the Borrower and the Bank, which need not affect direct budgetary support for the Ministry of Forestry, for implementation beginning January 1, 1995.

(d) The Borrower shall issue or caused to be issued, before December 31, 1994 the relevant decrees and regulations for the further liberalization of the domestic

market in wood and wood products except for the procurement of wood and wood products required under the system of state orders, in a manner agreed between the Borrower and the Bank.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 PIU referred to in Section 3.01 (c) has been established with staff and terms of reference acceptable to the Bank, including the appointment of a Project Director and a Project Manager, and the selection of the procurement and project management consultants, and that the operating budget for the Project for 1994 has been made available by the Borrower to the Ministry of Forestry.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
House of Government
Minsk
Republic of Belarus

Telex:

252 125 GKVES

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA) (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 BELARUS

By /s/ Vladimir Gontcharenok

Authorized Representative

INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil Kavilsky

Regional Vice President
Europe and Central Asia

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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods, equipment and materials	16,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(2) Technical assistance	4,700,000	100% of foreign expenditures
(3) Training	2,900,000	100% of foreign expenditures
(4) Forestry program for Parts A.1 and A.3 of the Project	6,300,000	100% of foreign expenditures
(5) Special services:		
(a) for Part A.9 of the Project	200,000	100% of foreign expenditures
(b) for Part B.1 of the Project	1,400,000	100% of foreign expenditures
(c) for Part B.2 of the Project	1,800,000	100% of foreign expenditures
(d) for Part B.4 of the Project	2,000,000	100% of foreign expenditures
(6) Civil works for Part A.5 of the Project	2,400,000	100% of foreign expenditures and 90% of local expenditures
(7) Unallocated	3,800,000	
TOTAL	41,900,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the

Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which the goods and services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures."

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, works and services not exceeding \$100,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

4. Notwithstanding the provisions of paragraph 1 above no disbursement shall be made:

(a) for Category 4 prior to the Borrower and the Bank agreeing on the determination of the standard costs for intensive silviculture operations;

(b) for Category 5 (a) before the approval by the Borrower of a program acceptable to the Bank for the Wetlands Forests Monitoring System and Wetlands Forests Management;

(c) for Category 5 (b) prior to the approval by the Bank of the work plan for the budget and hardware purchase for the needs of FMIS;

(d) for Category 5 (c) prior to the approval by the STC as defined in Section 1.01 (f) of the annual research program for the respective calendar year with expenditures under the Project as agreed between the Bank and the Borrower, including the contribution by the Borrower from specified budgetary sources; and

(e) for Category 5 (d) before the establishment of the Prototype Fund as defined in Section 1.01 (d) of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to introduce economically and environmentally sound practices in the forestry sector, to improve the forest resource management, and to increase the economic value of standing tree stock, and to achieve open market pricing for wood and wood products, liberalize domestic and international trade in such products, prepare the Ministry of Forestry for the privatization of the forestry sector and effect real price increases in the stumpage fees.

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: Improved Forest Productivity

1. Intensified Silviculture: carrying out an incremental thinning program on 230,000 ha over a thirty-six months implementation period (1995 to 1998).

2. Forestry Equipment: provision of equipment necessary for the intensification of silviculture.

3. Pruning Pilot Program: carrying out a pilot/demonstration program of 5,000 ha of young forest (20 years or less), and 5,000 ha of older forest, with the intention of testing the managerial and financial feasibility of producing knot-free "clearboard" pine logs.

4. Harvest Mechanization: investment in spare parts and prolonging the life of existing machinery until the introduction of light mechanization.

5. Seed Processing and Storage Facilities: carrying out of an expanded program to upgrade the genetic quality of replanted areas and establishment of a seed processing and storage facility near Minsk, with two satellite facilities near the towns of Gomel and Glubokoe.

6. Fire Protection: provision and improvement of the fire fighting equipment and communications network; fire-fighters' protective clothing against smoke and

radioactivity; and personal radionuclide dosimeters for the fire-fighters.

7. Air Pollution Monitoring: provision of equipment for forest air pollution monitoring for better diagnosis of the causes of defoliation and for soil and foliar analyses.

8. Radiation Monitoring System: provision of equipment for radiation-health monitoring system for the control and certification of the wood products and the workers engaged in their production.

9. Wetlands Forestry Monitoring: completion of species inventory in the wetlands, and establishment of wetlands database and Wetlands Forestry Management Program; design and establishment of a Wetlands Forest Monitoring System monitoring the impact of forestry activities water and soil pollutants; preparatory studies for special wetlands conservation areas; and training in regulatory and conservation enforcement in the wetlands for the Ministry of Forestry and other relevant government agencies of the Borrower.

Part B: Technical Assistance and Institution Building

1. Forestry Management Information System (FMIS): transfer of all forestry inventory data to a new FMIS for use with personal computers and transfer of computer-based information to individual enterprises and local administrative sub-divisions.

2. Forestry Research and Development: support of the contract research activities in the FRI under a program approved by the Ministry of Forestry.

3. Forestry Education and Manpower Planning: development by the Kirov Institute of curricula meeting the European standards for temperate zone forests and reflecting ecology-based approaches to sustainable forestry management, biodiversity and forestry conservation, and of a Forestry Education Strategic Plan.

4. Prototype Development and Testing: establishment and financing of a Prototype Fund, under the administration of the Ministry of Forestry, for local industries involved in prototype development and testing for internationally competitive forestry equipment.

5. Training: training for: (i) private sector harvesting contractors in both the technology of harvesting, the required compliance standards, and in small business management; (ii) Ministry of Forestry staff in new harvesting methods and standards; (iii) Ministry of Forestry staff in preparation for privatization of the enterprises of the Ministry; and (iv) for Ministry of Forestry staff in their altered future role primarily as forestry resource managers and regulators.

6. Forestry Strategic Plan: preparation of a plan for the short-term planning requirements for project activities as well as the ecological assessments of the proposed changes in forestry management, research priorities, manpower planning, and market assessments of future opportunities for the Borrower's wood and wood products.

7. Project Implementation Unit Technical Assistance: provision of procurement consultancy and PIU management systems advice. Improving institutional capacity for successful project implementation and strengthening of the institutional basis within the Ministry of Forestry for a possible follow-up project.

8. Other Technical Assistance: provision of international advisory services for specialized topics, including the introduction of an adequate cost accounting system; the computerization of Ministry of Forestry regional level accounts, efficiency studies of the enterprises pre-privatization; project auditing; advice on the pending forestry legislation; foreign language training; and other topics as may be agreed with the Bank from time to time.

* * *

The Project is expected to be completed by September 30, 1999.

SCHEDULE 3

Amortization Schedule

Payment of Principal

Date Payment Due	(expressed in dollars)*
On each April 15 and October 15 beginning October 15, 1999 through October 15, 2008	2,095,000
And on April 15, 2009	2,095,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. Bidders for the works shall be prequalified as described in paragraph 2.10 of the Guidelines.

3. To the extent practicable, contracts for goods and works shall be grouped into bid packages estimated to cost the equivalent of \$200,000 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 Belarus 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 which the Bank agrees can be supplied by a limited number of specialized suppliers, estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$1,700,000, may be procured under contracts awarded through limited international bidding procedures.

2. Items or groups of items estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$300,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Items or groups of items estimated to cost the equivalent of \$50,000 or less per contract up to the aggregate amount equivalent to \$600,000 may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three qualified suppliers eligible under the guidelines, in accordance with procedures acceptable to the Bank.

4. Contracts for goods which the Bank agrees are of a proprietary and specialized nature may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract for goods or works procured under the procedures set forth in Part A.1, C.1 and C.4 of this Schedule, 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 Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank 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, said 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 Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

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

Section II. Employment of Consultants and Special Services

1. In order to assist the Borrower in carrying out of special assignments, the Borrower shall employ consultants and specialists whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank 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 (Consultants' Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the Terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain arrangements, as agreed between the Borrower and the Bank, for carrying out of Parts A and B of the Project by the entities designated in said Parts as responsible for the carrying out of the programs thereunder and for the overall coordination and supervision of the same, including through the establishment and maintenance for this purpose a Project Implementation Unit, referred to in Section 1.01 (c) of this Agreement, with staff and other resources satisfactory to the Bank. The Project Implementation Unit shall complete a preliminary Project Implementation plan, as agreed between the Borrower and the Bank, and submit it to the Bank, before November 1, 1994, and a detailed Project Implementation Plan to be compiled before June 30, 1995, and revised annual plans in conjunction with the Bank by November 1 of each year.

2. The Borrower shall (a) prepare a detailed program of forestry and wood industries sector economic reform with the participation of the Ministry of Finance, Ministry of Forestry and Ministry of Economy, Ministry of Foreign Economic Relations,

the Anti-Monopoly Commission, the State Property Committee and other relevant agencies of the Borrower by May 1, 1995; and

(b) annually update the program and implementation timetable for the following 12 months period based on the results of the previously implemented reform measures, in coordination and in a manner acceptable to the Bank, not later than May 1 of each year.

3. The Borrower shall: (a) simplify the requirements, regulations and practices for issuing business licenses for forestry and wood industry enterprises and contractors in a manner acceptable to the Bank by December 31, 1994; and (b) by December 31, 1994 present timetable, acceptable to the Bank, for the implementation of privatization assistance program by the relevant agencies of the Borrower for the commercialization and subsequent privatization of the enterprises in the wood processing sector, including through the applicable voucher privatization programs and new Corporate governance standards of the Borrower.

4. The Borrower shall: (a) Prepare and submit for approval by the Bank terms of reference for the Forestry Strategic Plan (FSP) not later than June 30, 1994 and select and approve the consultants for the plan not later than September 30, 1994; and (b) propose, three months after the completion of the Forestry Strategic Plan an action plan, based on the FSP's recommendations for the strengthening of the forestry and environmental protection regulatory and supervisory functions of the Ministry of Forestry, an implementation timetable for the plan for agreement between the Borrower and the Bank.

5. The Borrower shall prepare and submit for approval by the Bank a draft agreement for the services of the contractors selected by the Borrower for the FMIS software, and the work plan and budget for the FMIS development, including the procurement of the necessary hardware, by November 30, 1994.

6. The Borrower through the STC shall review or caused to be reviewed the annual research programs to be contracted by the Ministry of Forestry with the research contractors and the implementation of the programs for every calendar year under the approved annual contracts, and the annual budget for the research programs for the following year, not later than November 1 of each calendar year, and submit the programs and the budgets for approval by the Bank.

7. The Borrower shall prepare and submit for approval by the Bank, not later than June 30 of each year, an annual training program for the forest enterprises and the private sector contractors in the forestry and wood sector.

8. The Borrower shall establish by December 1, 1994 the Prototype Fund referred to in Section 1.01 (e) of this Agreement, as an entity registered under the applicable laws and regulations of the Borrower with articles of association and lending investment and appraisal criteria and procedures agreed between the Borrower and the Bank; and submit the documents required for the establishment and the operation of the Fund for approval by the Bank by September 30, 1994.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 5 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 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 \$2,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent

withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank 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 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.

