

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF050372 - PNG

Global Environment Facility
Trust Fund Grant Agreement

(Forestry and Conservation Project)

between

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

Dated December 20, 2001

GEF TRUST FUND GRANT NUMBER TF050372 - PNG

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated December 20, 2001, between THE INDEPENDENT STATE OF PAPUA NEW GUINEA (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) The Bank, pursuant to Resolution No. 91-5 of March 14, 1991, of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) Following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution No. 94-2);

(C) The second replenishment of the GEF Trust Fund was approved on the basis set forth in Resolution No. 98-2 of July 14, 1998, of the Executive Directors of the Bank (Resolution No. 98-2);

(D) The Recipient having satisfied themselves as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding part of Parts C and D of the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment PNG Facility approved under Resolution 94-2, and to be funded from

contributions to the GEF Trust Fund under Resolution No. 98-2, which may include funds carried over from the first replenishment of the GEF Trust Fund under Resolution No. 94-2; and

(E) The Independent State of Papua New Guinea (the Borrower) has also requested the Bank to provide additional financing towards the financing of Parts A, C and D of the Project and by an agreement of even date herewith between the Borrower and the Bank, the Bank is agreeing to provide such assistance in an aggregate principal amount equal to seventeen million three hundred sixty thousand Dollars (\$17,360,000) (the Loan); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient upon the terms and conditions set forth in this Agreement.

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999, (the General Conditions) with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (14), (17) and (21), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Sections 4.01 and 4.06;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i) and (k), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and
- (xi) Sections 12.01 (c), 12.02, 12.03 and 12.04.

(b) The General Conditions shall be modified as follows:

- (i) a new paragraph shall be added to the end of Section 2.01 to read as follows: "the term "Special Drawing Rights" and the symbol "SDR" mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement";
- (ii) the term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (6) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term "Bank" shall also include the Bank acting in its own capacity;
- (iii) the term "Borrower", wherever used in the General Conditions,

means the Recipient;

- (iv) the term "Loan Agreement", wherever used in the General Conditions, means this Agreement;
- (v) the term "Loan" and "loan", wherever used in the General Conditions, mean the GEF Trust Fund Grant;
- (vi) the term "Loan Account", wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vii) a new subparagraph is added after subparagraph (p) in Section 6.02 of the General Conditions, as follows: "an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF."; and
- (viii) paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

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

(a) "Beneficiary" means an individual, community or privately owned enterprise established and operating in The Independent State of Papua New Guinea that meets the eligibility criteria set forth in the PNGMGCTF Operations Manual, to which the Recipient proposes to make, or has made a Grant or Sub-grant, as the case may be, and the term "Beneficiaries" means, collectively, more than one Beneficiary.

(b) "Conservation Management Areas" and the acronym "CMA" mean the use of forest land in small-scale sustainable development activities geared towards the establishment of forest conservation areas.

(c) "OEC" means the Borrower's Office of Environment and Conservation, and any successors thereto.

(d) "PNGFA" means the Borrower's PNG Forest Authority, and any successors thereto.

(e) "Fiscal Year" and the acronym "FY" mean the twelve (12)-month period corresponding to any of the Borrower's financial years, which period commences on January 1 and ends on December 31 in each calendar year, and the term "Fiscal Years" means, collectively, each of said Fiscal Year.

(f) "Forestry Act" means the Borrower's comprehensive legislation on forestry activities enacted in 1991, as amended to the date of this Agreement.

(g) "Kina" means the currency of The Independent State of Papua New Guinea.

(h) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank, dated September 1, 1999, as applied to

such agreement, and all schedules and agreements supplemental to the Loan Agreement.

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

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount in various currencies equivalent to one million five hundred sixty thousand Special Drawing Rights (SDR 1,560,000).

Section 2.02. (a) The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement in respect of the reasonable cost of works, goods and services required for carrying out Parts A and D and to be financed out of the proceeds of the GEF Trust Fund Grant.

(b) The Recipient may, for the purposes of Parts A and D of the Project and to be funded with the proceeds of the GEF Trust Fund Grant, open and maintain in Kina a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the GEF Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008, or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out Part A of the Project through the Department of National Planning and Monitoring and Part D of Project through the Office of Environment and Conservation, with due diligence and efficiency and in conformity with appropriate forestry, environment, managerial, financing, administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such parts of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Bank shall otherwise agree, the Recipient shall carry out Parts A and D of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the works, goods and consultants' services under Parts A and D of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

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

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

ARTICLE IV

Financial Conditions

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

(b) The Recipient shall:

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

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Recipient shall carry out a time-bound action plan acceptable to the Bank for the strengthening of its financial management system for carrying out Parts A and D of the Project in order to enable the Recipient, not later than June 30, 2002, or such later date as the Bank shall agree, to prepare semi-annual Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for Parts A and D of the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for Parts A and D of the Project for the six-month period following the period covered by said report, and
(B) shows separately expenditures financed out of the proceeds of the Grant during the period covered by said report and expenditures proposed to be financed out of the proceeds of the GEF Trust Fund Grant during the six-month period following the

period covered by said report;

(ii) (A) describes physical progress in the implementation of Parts A and D of the Project, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under Parts A and D of the Project and expenditures under contracts financed out of the proceeds of the GEF Trust Fund Grant as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Recipient shall prepare and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period, in a form and substance satisfactory to the Bank.

ARTICLE V

Remedies of the Bank

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

(a) The Borrower's Forestry Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of: (i) the Borrower to perform its obligations under the Loan Agreement, and (ii) the Recipient to perform any of its obligations under this Agreement.

(b) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Recipient to withdraw the proceeds of any loan or grant 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) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Bank that:

(A) such suspension, cancellation, termination or prematuring, in the case of loans and suspension, cancellation, termination in the case of grants, is not caused by the failure of the Recipient to perform any of its obligations under the relevant Agreement; and

(B) adequate funds for Parts A and D of the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effectiveness, Termination

Section 6.01. The following events are specified as conditions of effectiveness of this Agreement, namely, that all conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that this Agreement has been duly authorized or ratified by the Recipient and is legally binding upon the Recipient in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

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

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

For the Recipient:

Ministry for Finance and Treasury
Department of Finance and Treasury
P.O. Box 710
Waigani
NCD, Papua New Guinea

Cable address:

TREASURER
Boroko

Facsimile:

(675) 3288213

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 (MCI) or
64145 (MCI)

Facsimile:

202-522-1590
202-522-3308

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.

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

By /s/ Nagora Bogan

Authorized Representative

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

By /s/ Jemal-ud-din Kassum

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

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

Category	Amount of the GEF Trust Fund Grant Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works under Part D of the Project	30,000	50%
(2) Goods under Part D of the Project	90,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Consultants' services under Parts A and D of the Project	1,440,000	100%
TOTAL	1,560,000	

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 goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures".

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.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures for works, goods and consultant services, under such terms and conditions as the Bank shall specify by notice to the Recipient.

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

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to improve sustainable

forest resource management in The Independent State of Papua New Guinea, through (a) enhanced processes for landowner participation in forest management and conservation, (b) provision of financing to implement forest management options consistent with forest biodiversity conservation, (c) streamlined planning, monitoring and enforcement capacity of the PNG Forest Authority, and (d) strengthened environmental impact assessment and monitoring capabilities of the Office of Environment and Conservation.

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: Landowner Forest Decision-Making

1. Develop and implement processes to enhance forest landowners participation in forest management and conservation, including educational activities to improve landowner access to information, and improved institutional and legal arrangements for organizing landowner representation, regarding forest management and conservation, and provision of technical and financial assistance to implement their chosen forest development option.

2. Develop and implement Conservation Management Areas through the adoption of policies and enactment of legislation for community-initiated conservation and sustainable resource management areas on customary land.

Part B: PNG Mama Graun Conservation Trust Fund

1. Implementation by Beneficiaries of specific forest biodiversity conservation and sustainable projects, including the provision of Grants and Sub-grants and technical assistance therefor.

2. Develop and implement the PNG Mama Graun Conservation Trust Fund, including provision of technical assistance, office facilities, office equipment and vehicles therefor.

Part C: Sustainable Forest Management

1. Enhance the PNG Forest Authority's capability to manage, plan, implement and monitor sustainable forest operations, including the provision of PNGFA staff training and workshops, field and office equipment, vehicles, computers and consultants' services.

2. Improvement of natural production forest management through expansion of sustained yield post harvest activities, including the provision of PNGFA staff training and workshops, field and office facilities and equipment, vehicles, computers and consultants' services.

3. Development of post harvest management activities and feasibility studies for development of plantations on degraded forest lands, including feasibility studies, development of a forest plantation strategy and testing of methodology on a pilot basis.

Part D: Environmental Assessment and Monitoring

1. Development, testing and implementing environmental impact assessments and monitoring methodologies, including development of operational manuals, OEC staff training and workshops, field and office facilities and equipment, vehicles, computers and consultants' services.

2. Designing and implementing a community-based environmental monitoring program, including training to trainers within government agencies and Non-Governmental Organizations established in PNG, and testing the approach in several pilot areas.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: Procurement Procedures

1. Procurement of Small Works

Works shall be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

2. International or National Shopping

Except as provided for in paragraph 3 below, goods shall be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Vehicles, computers and associated equipment may be procured from the United Nations Office of Procurement Services (UNOPS) in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to each contract for goods to be procured in accordance with the procedures referred to in Part B.2. above, the following procedures shall apply:

(i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the

specifications and the draft contract; and

- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1 Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms

estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of Parts A and D of 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 June 1, 2004, 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 of Parts A and D of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part B of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by August 1, 2004, 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 Parts A and D 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 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of works, goods and services required for Part B of the Project and expenditures in respect of the reasonable cost of works, goods and services for Sub-projects and to be financed out of the proceeds of the GEF Trust Fund Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$200,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited in Kina 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 Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent

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

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

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

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the GEF Trust Fund Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Sub-grants under Part B of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the

Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

