

CONFORMED COPY

INTERIM FUND CREDIT NUMBER N-025 MAI

Interim Fund Development Credit Agreement

(Environmental Management Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator of the interim trust fund established with funds contributed by certain members of International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of International Development Association

Dated September 12, 1997

INTERIM FUND CREDIT NUMBER N-025 MAI

INTERIM FUND DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 12, 1997, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted on June 26, 1996.

WHEREAS (A) by the Interim Fund Resolution the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as Administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution; and

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Administrator to assist in the financing of the Project through the provision of resources from the Interim Fund, and the Administrator has determined that such assistance would be in accordance with the provisions of the Interim Fund Resolution;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The term "Association", wherever used in the General Conditions means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement;

(b) The terms "Development Credit Agreement", "Credit" and "Credit Account", wherever used in the General Conditions, are amended to read "Interim Fund Development Credit Agreement", "Interim Fund Credit" and "Interim Fund Credit Account", respectively;

(c) A new paragraph, numbered 15, is added to Section 2.01 to read as follows:

"15. "Participating Country" means any country that meets the requirements set forth in Section 5 (e) of Resolution No. IDA 184 of the Board of Governors of the Association, adopted on June 26, 1996, as determined by the Administrator as of the date on which the Interim Fund Credit was approved pursuant to Section 5 (c) of said Resolution; and "Participating Countries" means, collectively, all such countries;"

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

(e) The second sentence of Section 5.01 is modified to read:

"Except as the Administrator and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(f) In Sections 6.02 and 7.01 of the General Conditions, the term "Association" shall also mean the International Development Association acting in its own capacity.

(g) Section 6.03 is modified to read as follows:

"Section 6.03. Cancellation by the Administrator. If: (a) the right of the Borrower to make withdrawals from the Interim Fund Credit Account shall have been suspended with respect to any amount of the Interim Fund Credit for a continuous period of thirty days, or (b) at any time, the Administrator determines, after consultation with the Borrower, that an amount of the Interim Fund Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Interim Fund Credit, or (c) at any time the Administrator determines, with respect to any contract to be financed out of the proceeds of the Interim Fund Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Interim Fund Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Administrator to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (d) at any time, the Administrator determines that the procurement of any contract to be financed out of the proceeds of the Interim Fund Credit is inconsistent with the procedures set forth or referred to in the Interim Fund Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (e) after the Closing Date, an amount of the Interim Fund Credit shall remain unwithdrawn from the Interim Fund Credit Account, the Administrator may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such

amount of the Interim Fund Credit shall be canceled."

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

(a) "Project Preparation Advance" means the Project preparation advance granted by the Administrator to the Borrower pursuant to an exchange of letters, dated September 18, 1996, and October 10, 1996 between the Borrower and the Administrator ;

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

(c) "ESP" means the Borrower's Environmental Support Programme which provides the support for the implementation of the strategies, policies and priority programs set forth in the NEAP (as hereinafter defined) to address environmental problems;

(d) "NEAP" means the Borrower's National Environmental Action Plan launched by the Borrower in December 1994, outlining environmental strategies, measures and programs necessary for promoting the protection and management of the environment and the conservation and sustainable utilization of natural resources;

(e) "EMA" means the Borrower's Environment Management Act, 1996, (No. 23 of 1996);

(f) "MOREA" means the Borrower's Ministry of Research and Environmental Affairs;

(g) "MNR" means the Borrower's Ministry of Natural Resources;

(h) "NCE" means the National Council for the Environment, established under EMA;

(i) "NGO" means a non-governmental organization, established and operating in the territory of the Borrower;

(j) "Micro-project" means a specific environmental development project financed or proposed to be financed through a Grant (as hereinafter defined) extended under the Project;

(k) "Beneficiary Community", means a community which meets the criteria specified in paragraph 12 of Schedule 4 to this Agreement, to whom or for whose benefit a Grant is made or proposed to be made, for a Micro-project under the Project;

(l) "Grant" means a grant made or proposed to be made to finance a Micro-project under Part C.1 or Part C.4 of the Project; and

(m) "Project Implementation Plan" or "PIP" means the plan referred to in paragraph 2 of Schedule 4 to this Agreement containing, inter alia, workplans, training plans, monitoring and performance indicators and procedures to be used for the purpose of implementation of the Project, as they may be amended from time to time, in consultation with the Administrator, and such term includes any schedules to the Project Implementation Plan.

ARTICLE II

The Interim Fund Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Interim Fund Development Credit Agreement, an amount in various currencies equivalent to eight million seven hundred thousand Special Drawing Rights (SDR 8,700,000).

Section 2.02. (a) The amount of the Interim Fund Credit may be withdrawn from the Interim Fund Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Administrator 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 Interim Fund Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 2002, or such later date as the Administrator shall establish. The Administrator shall promptly notify the Borrower of such later date.

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2007, and ending March 15, 2037. Each installment to and including the installment payable on March 15, 2017, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Administrator may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Administrator of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Interim Fund Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Interim Fund Credit as of the first semiannual payment date referred to in paragraph (a) above falling six

months or more after the date on which the Administrator notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Administrator may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Administrator on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Administrator, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project, through MOREA, with due diligence and efficiency and in conformity with appropriate administrative, financial 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 Administrator shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator 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 Administrator, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have 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
acceptable to the Administrator;

independent auditors

(ii) furnish to the Administrator, 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 Administrator shall have reasonably requested; and

(iii) furnish to the Administrator such other information concerning said records and accounts and the audit thereof as the Administrator shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Interim Fund Credit 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 Administrator has received the audit report for the fiscal year in which the last withdrawal from the Interim Fund Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Administrator's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association and the Administrator

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified, namely, that EMA has been amended so as to make it improbable that MOREA can effectively carry out its responsibilities under the Project.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Administrator to the Borrower.

ARTICLE VI

Effective Date; Termination Designation of Administrator

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Interim Fund Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has appointed a Financial Controller and a Procurement specialist in the Administration and General Department of MOREA in accordance with the provisions of Section II of Schedule 3 to this Agreement; and

(b) the Borrower has adopted the PIP.

Section 6.02. The date ninety (90) days after the date of this Agreement is

hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the Association in accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of a date to be notified by the Administrator to the Borrower.

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
P.O. Box 30049
Capital City
Lilongwe 3
Malawi

Cable address:

FINANCE
Lilongwe

Telex:

44407 MI

For the Association and the Administrator:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable address:

INDEVAS
Washington, DC

Telex:

248423 (MCI) or
64145 (MCI)

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 MALAWI

By /s/ Willie Chokani

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the interim trust fund established with
funds contributed by certain members of

International Development Association pursuant to
Resolution No. IDA 184 of the Board of Governors of
International Development Association

By /s/ Callisto E. Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Interim Fund Credit

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

| Category | Amount of the Interim Fund Credit Allocated (Expressed in SDR Equivalent) | % of Expenditures to be Financed |
|--|---|---|
| (1) Civil works | 600,000 | 90% |
| (2) Vehicles and equipment | 1,700,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally |
| (3) Consultants' services | 1,750,000 | 100% |
| (4) Training | 1,950,000 | 100% through June 30, 2000, 60% through June 30, 2001 and 40% thereafter |
| (5) Goods and works for Micro-projects | 600,000 | 95% |
| (6) Operating Costs | 1,050,000 | 100% through June 30, 2000, 60% through June 30, 2001 and 40% thereafter |
| (7) Refunding of Project Preparation Advance | 600,000 | Amount due pursuant to Section 2.02 (c) of this Agreement |
| (8) Unallocated | 450,000 | |
| | <hr/> | |
| TOTAL | 8,700,000 ===== | |

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;

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

(c) the term "Operating Costs" means the incremental costs involved in carrying out the Project including supplies, travel expenses and allowances, vehicle and equipment and operating and maintenance expenditures.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement; and

(b) in respect of payments made for expenditures under Category (5) for Micro-projects until the Borrower has entered into the arrangements referred to in paragraph 14 of Schedule 4 to this Agreement.

4. The Administrator may require withdrawals from the Interim Fund Credit Account to be made on the basis of statements of expenditure for expenditures for goods, works and consultant services for firms under contracts costing less than \$100,000 equivalent each, and consultants services for individuals under contracts costing less than \$50,000 equivalent each, under such terms and conditions as the Administrator shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the Borrower's efforts to implement the Environmental Support Programme through: (i) strengthening the coordination capacity of MOREA; (ii) creating a broad-based program of environmental education; (iii) promoting a shift of responsibility for sustainable resource management to the community level; and (iv) supporting initiatives in key areas of environmental management.

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

Part A: Institutional Capacity Building

1. Strengthening MOREA's capacity to manage the ESP, its financial and logistical capabilities and that of the Borrower's line departments, regional and district administrations, NGOs and other agencies and institutions, through the provision of training, and technical advisory services and the acquisition of equipment and vehicles.

2. (a) Strengthening of MOREA's information systems through the provision of technical advisory services and training, and the acquisition of equipment and vehicles.

(b) Broadening the scope of MOREA's environmental information system, including information provided by communities.

3. Strengthening MOREA's capacity to review, audit and participate in the environmental impact assessment process through the provision of training and technical advisory services and the acquisition of equipment.

Part B: Environmental Education

1. Preparation, production and dissemination of publications, posters, radio programs and other audiovisual materials on environmental topics.
2. Holding workshops and other events on environmental topics.
3. Provision of inputs into curriculum design for schools and other educational institutions on environmental topics.

Part C: Community-Based Environmental Management

1. Mobilization of communities to formulate community environment management plans designed to improve environmental management in both rural and urban areas, and the provision of grants to communities to carry out environmental Micro-projects designed to improve the environment.
2. Co-management of forest resources by and with communities, by inter alia providing the Forestry Department of MNR with training, technical advisory services equipment and vehicles, to support the process.
3. Capacity-building for communities bordering wildlife conservation areas at Lengwe National Park, and Majete and Mwabvi Game Reserves, to co-manage these natural resources, through the provision of training, technical advisory services and limited logistical support for the improved management conservation areas; and the provision of equipment and vehicles to the Department of National Parks and Wildlife of MNR.
4. Development of priority environmental mitigation action plans in urban and periurban areas, and the provision of grants to communities and local authorities for environmental services in urban and periurban areas, including installation of public water kiosks, on-site sanitation facilities, water course reclamation and other emergency pollution abatement measures.

Part D: Environmental Actions and Studies

Carrying out activities including, inter alia:

1. Strengthening the Meteorological Department's capacity to develop long-lead forecasts through the provision of technical advisory services, vehicles, equipment and furniture.
2. Development of the institutional framework and support field operations to deal with water hyacinth in Lake Malawi and Shire River.
3. Support for preparatory and pilot activities for bilharzia control.
4. Implementation of actions to improve management and infrastructure of the Lake Malawi National Park.
5. Provision of logistical and technical support to the Policy Planning Unit of the Ministry of Lands and Valuation.
6. Carrying out studies and other activities to support the achievements of the objectives of the Project.

* * *

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Subject to the eligibility restrictions set forth in Section III of this Schedule, goods 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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

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

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$1,200,000 equivalent and goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Goods, up to an aggregate amount equivalent to \$300,000, may be procured through the United Nations Inter-Agency Procurement Services Office.

4. Community Participation

Goods and works required for Part C of the Project estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 shall be procured in accordance with procedures acceptable to the Administrator, as set out in the Project Implementation Plan.

Part D: Review by the Administrator of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Administrator 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 Administrator, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 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

1. Subject to the eligibility restrictions set forth in Section III of this Schedule, consultants' services shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Administrator. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Administrator shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Administrator 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 individual consultants estimated to cost less than \$ 50,000 equivalent each. However, said exceptions to prior Administrator 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 Administrator, (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.

Section III. Eligibility Restrictions

1. Notwithstanding the provisions of paragraph 1.6 of the Guidelines, the proceeds of the Interim Fund Credit may only be withdrawn on account of expenditures for goods and works provided by nationals of, and produced in or supplied from, Participating Countries; consequently, nationals of countries that are not Participating Countries and bidders offering goods and works from such countries shall be disqualified from bidding for such contracts, and the bidding documents shall so specify.

2. Notwithstanding the provisions of paragraph 1.02 of the Consultant Guidelines, only consultants from Participating Countries shall be eligible to provide services financed out the proceeds of the Interim Fund Credit.

SCHEDULE 4

Implementation Program

1. The Environmental Affairs Department in MOREA shall have the main responsibility for coordinating the ESP, including the Project activities.

2. (a) Except as the Administrator shall otherwise agree, the Borrower shall, in carrying out the Project, apply the guidelines and procedures specified in the PIP and shall not amend the PIP or waive any provision thereof, which, in the opinion of the Administrator, will materially or adversely affect the implementation of the Project.

(b) The Borrower shall: (i) not later than January 31, of each year, furnish to the Administrator for approval the draft annual workplan for the Project; and (ii) by March 31 of each year, furnish to the Administrator the final annual workplan.

(c) The Borrower shall, not later than January 31 of each year, furnish to the Administrator for information and comments, copies of the workplans for other activities under the ESP, which complement and support the activities under the Project.

3. The Borrower shall, commencing December 31, 1997, furnish to the Administrator: (a) every six months progress reports on implementation of the Project; and (b) every year progress reports on the ESP.

4. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, not later than December 31, 1999, 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 the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Administrator, by June 30, 2000, or such later date as the Administrator 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 Administrator's views on the matter.

5. The Borrower shall, by not later than December 31, 1997, publish guidelines and regulations on environmental impact assessments.

6. The Borrower shall, by not later than December 31, 1997, designate staff in the Ministries and other agencies executing activities under the ESP, with appropriate qualifications and levels of authority as representatives of that Ministry or agency for purposes of the ESP.

7. The Borrower shall, by not later than December 31, 1997, furnish to the Administrator a capacity-building and training program for MOREA, the staff designated in paragraph 6 above and environmental focal points in other institutions designated by MOREA from time to time.

8. The Borrower shall, not later than December 31, 1997, agree to allow communities who have entered into co-management arrangements for forestry and wildlife areas under the ESP to share the revenues earned from the sustainable exploitation of such reserves.

9. The Borrower shall, by not later than March 31, 1998, complete a functional and public expenditure review of its Forestry Department and furnish such review to the Administrator.

Part C of the Project

10. The Borrower shall maintain, until completion of the Project, a Steering Committee for Part C of the Project; with representatives from MOREA, Ministry of Finance, MNR, Ministry of Economic Planning and Development, NGOs, and the private sector. The Steering Committee shall approve each community environment management plan and proposal for a Micro-project on the basis of the criteria specified in paragraphs 12 and 13 below, its consistency with regional and sectoral priorities and MOREA's policy and guidelines.

11. The Borrower shall make appropriate arrangements within MOREA to enable it to coordinate the implementation of Part C of the Project, by inter alia:

(a) entering into contractual arrangements with an agency for the training of NGOs in community mobilization; and

(b) entering into contractual arrangements with NGOs for carrying out: (i) community mobilization activities; (ii) preparation of community environment action plans; and (iii) monitoring the implementation of said action plans to ensure they

meet the requirements in paragraph 14 below.

12. Eligibility Criteria for Communities

No community shall be eligible to receive any Grant from the proceeds of the Interim Fund Credit unless the Steering Committee shall have determined that they satisfy the following criteria:

(a) the community is located in one of the priority areas for the environmental intervention defined by MOREA under the ESP; and

(b) the community has shown interest in improving the management of their environment and natural resources.

13. Eligibility Criteria for Micro-projects

No Micro-project shall be eligible for financing out of the proceeds of the Interim Fund Credit unless the Steering Committee shall have determined, in accordance with the procedures and guidelines set forth in the Project Implementation Plan, that the Micro-project satisfies the eligibility criteria specified in detail in the PIP, which shall include that:

(a) the Micro-project shall form part of a coherent community environmental management plan; and

(b) the Micro-project proposal shall include commitment by the community to make a contribution of at least 10% to the estimated costs of the Micro-project in the form of cash, materials, labor or other services.

14. Terms and Conditions of Grants made for Micro-projects

For purposes of financing Micro-projects, the Borrower shall enter appropriate arrangements with Beneficiaries, under terms and conditions satisfactory to the Administrator, which shall include the following:

(a) financing to be on a grant basis and, unless otherwise agreed by the Administrator, not to exceed the equivalent of \$5,000 for Micro-projects under Part C.1 of the Project and the equivalent of \$20,000 for Micro-projects under Part C.4 of the Project;

(b) the obligation of the Beneficiary Community to carry out the Micro-project with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Micro-project;

(c) the requirement that : (i) the goods, works and services to be financed from the proceeds of the Interim Fund Credit shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement, and (ii) such goods, works and services shall be used exclusively in the carrying out of the Micro-project;

(d) the right of the Borrower to inspect by itself, or jointly with the Administrator, if the Administrator shall so request, the goods, works, sites, plants and construction included in the Micro-project, the operations thereof and any relevant records and documents;

(e) the right of the Borrower to obtain all information as the Borrower or the Administrator shall reasonably request regarding the administration, operation and financial conditions of the Micro-project; and

(f) the right of the Borrower to suspend or terminate the right of the Beneficiary to use the proceeds of the Interim Fund Credit for the Micro-project upon the failure by the Beneficiary to perform any of its obligations under the Micro-project Agreement.

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Interim Fund Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Administrator shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Interim Fund Credit Account plus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 4,000,000.

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 Administrator 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 Administrator 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 Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

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

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

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Borrower directly from the Interim Fund Credit 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 Administrator, 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 Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator 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 Interim Fund Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Interim Fund Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Administrator 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 Interim Fund Credit Account of the remaining unwithdrawn amount of the Interim Fund Credit allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator 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 Administrator 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 Administrator, the Borrower shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator 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 Administrator 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 Administrator, refund to the Administrator such outstanding amount.

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

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

