

CONFORMED COPY

CREDIT NUMBER 2846 ALB

Development Credit Agreement

(Forestry Project)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 3, 1996

CREDIT NUMBER 2846 ALB

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 3, 1996, between ALBANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower intends to contract from the Government of Italy (GOI) a loan (the GOI Loan) in an aggregate principal amount equivalent to \$8,500,000, and a grant (the GOI Grant) in an aggregate principal amount equivalent to \$2,500,000, to assist in financing the Project on the terms and conditions set forth in agreements to be entered into between the Borrower and GOI (the GOI Loan Agreement and the GOI Grant Agreement respectively); and

(C) the Borrower intends to contract from the Government of Switzerland (GOS) a grant (the GOS Grant) in an aggregate principal amount equivalent to \$450,000 to assist in financing of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and GOS (the GOS Grant Agreement);

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

- (i) the last sentence of Section 3.02 is deleted; and
- (ii) the second sentence of Section 5.01 is modified to read:

"Except as the Association 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 member of the Bank or for goods procured in, or services supplied from, such territories; or (b) for the purpose of any payment to persons and entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Bank of Albania" means the Central Bank of the Borrower established pursuant to the Law on the Bank of Albania No. 8076 dated February 22, 1996;
- (b) "CEP" means the Committee for Environmental Protection within the Ministry of Health and Environment of the Borrower;
- (c) "DGFP" means the Directorate General of Forests and Pastures within the MAF (as hereinafter defined);
- (d) "Forest Technician School" means the Forest Technician School of the Borrower;
- (e) "Forest and Pasture Research Institute" means the Forest and Pasture Research Institute of the Borrower;
- (f) "Implementing Agencies" means the DGFP, the Forest Technician School and the Forest and Pasture Research Institute, and the communes selected pursuant to paragraph B (1) of Schedule 4 of this Agreement;
- (g) "MAF" means the Ministry of Agriculture and Food of the Borrower;
- (h) "PEMU" means the Project Environmental Management Unit within the MAF to be established pursuant to Section 3.02 (b) of this Agreement;
- (i) "PMU" means the Project Management Unit established within the MAF as referred to in paragraph A of Schedule 4 to this Agreement;
- (j) "Project Steering Committee" means the committee chaired by the Minister of Agriculture and Food or his representative and comprising the director of agricultural program office of MAF, the head of PMU, the head of PEMU and the director general of DGFP;
- (k) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated January 20, 1995 and February 1, 1995 between the Borrower and the Association;
- (l) "Action Plan" means the DGFP program of actions to reduce illegal forest harvesting, as referred to in the letter from the Director-General of Forests and Pastures to the Association, dated February 27, 1996, as the same action plan has been revised by agreement with the Association, and reissued as of March 1, 1996; and
- (m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and

conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to five million five hundred thousand Special Drawing Rights (SDR 5,500,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank of Albania on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

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

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 15 and December 15 commencing June 15, 2006 and ending December 15, 2035. Each installment to and including the installment payable on December 15, 2015 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through Implementing Agencies with due diligence and efficiency and in conformity with appropriate administrative, financial, 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 Association 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 The Borrower shall:

(a) not later than July 1, 1996, adopt improved marketing and pricing procedures for timber and fuel wood, acceptable to the Association and maintain such procedures thereafter;

(b) not later than January 1, 1997, establish and thereafter maintain PEMU with staffing and functions acceptable to the Association. The terms of reference, qualifications and experience of the head of PEMU and the advisors on environmental management shall be at all times acceptable to the Association;

(c) not later than June 30, 1997, prepare sector strategy review documents, which would include recommendations for legal, institutional, financial, economic, environmental and technical measures for the forestry and pasture sector, and submit the same to the Association for its review;

(d) not later than June 30, 1998, prepare under terms of reference agreed with the Association, a study of alternative actions for the long-term development of its forestry and pasture sector taking into account the views of the Association on the strategy review documents submitted pursuant to paragraph (c) of this Section; based on the findings and recommendations of this study, review with the Association its proposals for amending its Law on Forestry and the draft Law on the Protection of Nature and Biological Diversity not later than April 30, 1999; and submit the agreed proposal and the draft to the Parliament not later than June 30, 1999; and

(e) not later than October 15 of each year, submit to the Association, for approval, an annual work program and budget for Project execution during the next calendar year and take all measures required to ensure compliance with such approved work programs and budgets.

Section 3.03. 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 Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about November 30, 1998: (i) 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, in particular with reference to the measures specified in paragraph 5 of Part A of Schedule 4 to this Agreement, during the period preceding the date of said

report, and setting out the next steps recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and (ii) a report on the implementation of DGFP's Action Plan to reduce illegal forest harvesting; and

(c) review with the Association, by December 31, 1998, or such later date as the Association shall request, the reports referred to in paragraphs (b)(i) and (ii) of this Section, ensure satisfactory progress has been achieved on the measures specified in paragraph 5 of Part A of Schedule 4 to this Agreement, and thereafter, take all steps required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Association's view on the matter.

Section 3.04. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.05 For the purpose of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

(b) afford the Association 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 independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

(i) maintain 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 Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

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

ARTICLE V

Remedies of the Association

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

- (i) Subject to sub-paragraph (ii) of this Section:
 - (A) the right of the Borrower to withdraw the proceeds of the GOI Loan, the GOI Grant or the GOS Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GOI Loan Agreement, GOI Grant Agreement or the GOS Grant Agreement providing therefor, or
 - (B) the GOI Loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under the GOI Loan Agreement, the GOI Grant Agreement or the GOS Grant Agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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 paragraph (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that all conditions precedent to the effectiveness of the GOI Loan Agreement, the GOI Grant Agreement and the GOS Grant Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

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.

ARTICLE VII

Representatives 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
Bulevardi "Deshmoret e Kombit"
Tirana, Albania

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ALBANIA

By /s/ L. Dilja

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ J.-M. Severino

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works under Parts A, B.1 and C of the Project	1,240,000	90%
(2) Forest works		
(a) Thinning and reforestation under Parts B.3 and B. 4 of the Project	820,000	90%
(b) Forest and pasture improve- ments under Part D (iii) of the Project	450,000	90%
(3) Goods	170,000	100% of foreign expenditures,

		100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(4) Consultants' services and training		
(a) under Parts A, B, C and E of the Project	380,000	100%
(b) under Part B.2 of the Project	280,000	100%
(5) Incremental operating costs	1,070,000	100% up to SDR 340,000 equivalent, 70% up to the next SDR 680,000 equivalent, and 40% thereafter
(6) Refunding of Project Preparation Advance	410,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	680,000	
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TOTAL	\$5,500,000	=====

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 "incremental operating costs" means operation and maintenance costs which would not have been incurred absent the Project and includes, costs with respect to: (i) maintenance and operation of equipment procured under the Project; (ii) incremental staff salaries; and (iii) office supplies.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (i) payments made for expenditures prior to the date of this Agreement; (ii) payments for expenditures under Category (2) (b) of the table set forth in paragraph (1) unless regulations for the transfer of state forest and pasture land to communes, acceptable to the Association, have been adopted; and (iii) payments for expenditures under Category (4) (b) of the table set forth in paragraph (1) unless regulations for forest management planning methodology, acceptable to the Association, have been adopted.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) expenditures for civil and forest works, goods and incremental operating costs under contracts not exceeding \$100,000 equivalent each; and (ii) contracts for the employment of consultants not exceeding \$50,000 equivalent each, under such terms and conditions as the Association shall specify by notice to the Borrower.

Description of the Project

The objectives of the Project are: (i) to restore degraded state-owned forest and pasture areas and promote their sustainable use; (ii) to promote the conservation of natural forest ecosystems; and (iii) to take the initial steps in the transition of the forestry/pasture sector to a market economy.

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

Part A: Institutional Development

1. Provision of office and transport equipment including telecommunications facilities and financing of related incremental operating costs and technical assistance to reorganize and strengthen the institutional capacity of DGFP through: (i) decentralizing its management to better serve district and sector offices with personnel and finance management, marketing, engineering design and forest management planning; (ii) developing capacity in communal forest and pasture management and in pasture administration; and (iii) developing market economy skills for bidding, contracting, marketing, financial management through training, and involvement of the private sector through information campaigns.
2. Provision of in-service training for forestry and pasture staff, education for forestry technicians and strengthening the Forest Technician School and the Forest and Pasture Research Institute through upgrading the facilities and staff training.
3. Strengthening the institutional capacity of PMU for Project management and coordination.
4. (i) Support for the establishment and strengthening the institutional capacity of PEMU to ensure environmentally sound project implementation and promote conservation of natural forest ecosystems through provision of technical assistance and equipment including transport equipment, and financing of related operational costs; and (ii) strengthening of the institutional capacity of CEP to prepare guidelines for environmental monitoring and environmental impact assessment, through the provision of technical assistance.
5. Provision of technical assistance and training to support: (i) the communal forest and pasture management component and protected areas management component; and (ii) project management, policy reforms and institutional development.

Part B: Improved State Forest Management

1. Strengthening the forest management and conservation capacity of DGFP's field offices to efficiently manage and protect state forests and implement the Action Plan to reduce illegal forest harvesting through the provision of office, transport and communications equipment and the financing of related incremental operating costs; the repair and refurbishing of administration buildings and the provision of technical assistance.
2. Developing new and improved forest management plans.
3. Reforestation by supporting artificial complementary regeneration in areas of high forests that: (i) have been harvested and where the natural regeneration has partially or totally failed; and (ii) are located on highly erosive soils.
4. Pre-commercial thinning on about 29,000 ha of young stands of black pine, beech and oak.
5. Provision of support for: (i) forest and pasture research; and (ii) monitoring activities for forest protection.

Part C: Forest Road Rehabilitation and Maintenance

Rehabilitation of about 350 km of existing forest roads in 53 forest management units selected according to forest management plans developed satisfactory to the Association.

Part D: Management of Communal Forest and Pasture Areas

Improvement of participatory management of forests and pastures in about 30

communes, agreed with the Association, through: (i) implementation of a pilot project in Gjinar, Tregan and Kajan communes, to develop the methodology for communal management of forest and pasture areas; (ii) development of improved management and investment plans for areas of state forests and pastures to be transferred to communes; (iii) implementation of communal investment projects in restoration of degraded areas and pasture improvement, planting of fodder and fuel wood trees and fencing for protection and rehabilitation of highly degraded coppice and shrub forests; and (iv) establishment of a data base on communally managed forests and pastures and preparation of studies on the production and marketing potential for non-timber forest products.

Part E: Protected Areas Management

1. Strengthening of protected areas management services in Diber, Llogara, Valbona, Bredhi i Drenoves and Kune Vaini districts through provision of transport and communications equipment, training and technical assistance.

2. Preparation and implementation of a protected areas pilot management plan for the Lura National Park.

* * *

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

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 (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. For goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B, 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 \$100,000 equivalent or more, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost \$200,000 equivalent or less per contract and \$300,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost \$50,000 equivalent or less per contract and \$100,000 equivalent or less in the aggregate, 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.

4. Procurement of Small Works

Works estimated to cost less than \$100,000 per contract and \$2.3 million or less in the aggregate, may be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three 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 Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotations for the required work, and who has the experience and resources to successfully complete the contract.

5. Force Account

Works for reforestation under Part B.3 of the Project which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$100,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

6. Community Participation

Works required for Part D of the Project shall be procured in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to: (a) each contract for goods and works estimated to cost the equivalent of \$100,000 or more; (b) the first three works contracts under each Parts B.1 and C of the Project, procured in accordance with Parts C.1 and C.4 of this Schedule; (c) the first three forest works contracts under Parts B.3 and B.4 of the Project, procured in accordance with Parts C.1 and C.4 of this Schedule; and (d) the first contract procured under Part C.6 of this Schedule, 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. 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 as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts for the employment of consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association 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 Association; and (d) amendments to contracts for the employment of consultants raising the contract value to \$50,000 equivalent or above.

Implementation Program

The Borrower shall apply the following Project implementation arrangements, as they may be modified by the agreement of the Borrower and the Association.

A. Project Management

(1) The MAF, through the Project Steering Committee and PMU, shall be responsible for the overall implementation and coordination of the Project. The Forest Technician School and the Forest and Pasture Research Institute shall be responsible for implementing Parts A.2 and B.5 of the Project. Part A.4 (i) of the Project shall be implemented by PEMU, and Part A.4 (ii) of the Project shall be implemented by CEP.

(2) The Borrower shall maintain the PMU under terms of reference and with staffing and other resources acceptable to the Association. The PMU shall be headed by a director and supported by an advisor and the forestry policy specialist whose terms of reference, qualifications and experience shall be at all times acceptable to the Association.

(3) The PMU shall report to the Project Steering Committee and shall be responsible for: (i) preparation jointly with the Implementing Agencies of annual work programs and budgets including the annual procurement plan; (ii) coordination and monitoring under arrangements satisfactory to the Association of the implementation of approved work programs by the Implementing Agencies; (iii) procurement of goods, works and consultants' services in accordance with Schedule 3 of this Agreement in close collaboration with the Implementing Agencies; (iv) maintenance and audit of Project accounts; and (v) preparation of reports required pursuant to Section 9.06 of the General Conditions.

(4) The Project Steering Committee shall be responsible for: (i) the approval of annual work programs and budgets prepared by the PMU; (ii) quarterly review of implementation and approval of budget adjustments proposed by PMU; and (iii) any other matters relating to the fulfillment of the obligations of the Borrower referred to in this Agreement, which may be specified from time to time by the Borrower, pursuant to the agreement between the Borrower and the Association.

(5) Pursuant to Section 3.03 (b) and (c) of this Agreement, actions of the Borrower shall be reviewed and evaluated with reference to the following measures:

(a) progress achieved in carrying out its strategy for the institutional restructuring of the forestry and pasture sector;

(b) the impact of Project supported policy reforms (control of illegal logging, timber export trade liberalization, and timber pricing and marketing reforms) on sale volumes, domestic prices, government revenues, and the domestic timber industry;

(c) progress achieved in improving the Borrower's forest management planning;

(d) implementation progress and future reforestation program taking account of its economic viability;

(e) compliance with the mitigating measures required for forest activities under the Project;

(f) progress achieved and future implementation of Part D of the Project; and

(g) proposals for a follow-up operation for biodiversity protection, based on a biodiversity strategy.

B. Part D of the Project

(1) DGFP shall select the communes for the implementation of Part D of the Project, based on a satisfactory socio-economic situation, management capacity, and livestock, forestry and pasture situation.

(2) The projects prepared by the selected commune shall be submitted to DGFP for approval based on criteria set forth in regulation for the transfer of state forest and pasture land to communes referred to in paragraph (3) (ii) of Schedule 1 to this Agreement.

(3) DGFP through its district office shall enter into an agreement, satisfactory to

the Association, with the selected commune providing for the execution of the approved project.

(4) The PMU shall enter into an agreement, satisfactory to the Association, with the selected commune, setting forth the terms and conditions for the financing of the approved project.

SCHEDULE 5

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 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 \$500,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3

(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 700,000.

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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

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

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

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

(b) if the Borrower shall have failed to furnish to the Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

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

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

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

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

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

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

