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GEF TRUST FUND GRANT NUMBER TF054250-KE

Global Environment Facility Trust Fund Grant Agreement

(Western Kenya Integrated Ecosystem Management Project)

between

REPUBLIC OF KENYA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Public Disclosure Authorized

acting as an Implementing Agency of the Global Environment Facility

Dated May 4, 2005

GEF TRUST FUND GRANT NUMBER TF054250-KE

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated May 4, 2005, between REPUBLIC OF KENYA (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

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

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

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

(D) the Project will be carried out by the Kenya Agricultural Research Institute (KARI) with the Recipient's assistance and, as part of such assistance, the Recipient will make available to KARI the proceeds of the GEF Trust Fund Grant as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Bank and KARI (the Project Agreement);

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;

- (iii) Section 3.01;
 - (iv) Sections 4.01 and 4.06;
 - (v) Article V;
 - (vi) Sections 6.01 (c), (e), (f), (i), (l), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
 - (vii) Section 8.01 (b);
 - (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
 - (ix) Sections 10.01, 10.03 and 10.04;
 - (x) Article XI; and
 - (xi) Sections 12.01 (c), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), 6.02 (f) and 5.01 (a) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
 - (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
 - (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
 - (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
 - (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
 - (vi) a new subparagraph is added after subparagraph (o) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”

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

- (a) “Beneficiary” means a community based organization or a community group recognized as a legal entity under the laws of the Recipient and operating in the Project Area (as hereinafter defined), which has met the eligibility criteria set out in Section III of Schedule 2 to

the Project Agreement and in the Project Implementation Plan (as hereinafter defined) and, as a result, has received, or is entitled to receive, a Community Sub-project Grant (as hereinafter defined);

(b) “Community Sub-project” means a set of activities under Part B of the Project carried out or to be carried out by a Beneficiary;

(c) “Community Sub-project Grant” means a grant made or proposed to be made by KARI out of the proceeds of the GEF Trust Fund Grant to a Beneficiary for the purpose of financing a Community Sub-project;

(d) “Community Sub-project Grant Agreement” means an agreement concluded, or to be concluded, between KARI and a Beneficiary, setting forth the terms and conditions under which a Community Sub-project Grant shall be made available to the Beneficiary;

(e) “Eligible Categories” means Categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means the expenditures referred to in Section 2.02 of this Agreement;

(g) “ESMF” means the Environmental and Social Management Framework adopted by the Recipient and acceptable to the Bank, setting out, inter alia: (i) details on the potential environmental and social risks and impacts which can occur at various stages of Project implementation; (ii) measures appropriate or required to manage potential environmental and social risks and mitigate adverse impacts associated with Community Sub-projects and other Project activities; and (iii) recommendations for adequate institutional, monitoring and reporting, and training arrangements to ensure the proper implementation of, and regular feedback on compliance with, the ESMF;

(h) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of the Project Agreement.

(i) “GEF Trust Fund Grant Agreement” means this Agreement;

(j) “Initial Deposit” means the deposit referred to in Section 3.04 (b) of this Agreement;

(k) “KARI” means the Kenya Agricultural Research Institute, established pursuant to the Recipient’s Science and Technology Act, 1979 (CAP 250) to, among other things, carry out research in agriculture, veterinary sciences, and forestry, or any successor thereto;

(l) “PAP” means each Participatory Action Plan prepared under Part A.1 of the Project;

(m) “PCO” means the Project Coordination Office referred to in Section I(2) of Schedule 2 to the Project Agreement;

(n) “PIP” means the Project Implementation Plan referred to in Section II(1) of Schedule 2 to the Project Agreement;

(o) "Procurement Plan" means KARI's procurement plan dated October 28, 2004, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 2.02 (b) of the Project Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(p) "Project Account" means the account referred to in Section 3.04 of this Agreement;

(q) "Project Agreement" means the agreement of even date herewith between the Bank and KARI, as such agreement may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(r) "Project Area" means approximately nine 100 sq.km focal areas, three such areas for each of the three basins selected in accordance with criteria specified in the PIP for purposes of Project implementation, from among the Nyando, Yala, and Nzoia River Basins of Western Kenya;

(s) "Report-based Disbursements" means the Recipient's option for withdrawal of funds from the GEF Trust Fund Grant Account referred to in Part A.5 of Schedule 1 to this Agreement;

(t) "Special Account" means the account referred to in Part B.1 of Schedule 1 to this Agreement; and

(u) "Subsidiary Grant Agreement" means the agreement between the Recipient and KARI referred to in Section 3.01 (b) of this Agreement.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equal to four million one hundred thousand Dollars (\$ 4,100,000).

Section 2.02. The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant; and (ii) amounts paid (or, if the Bank shall so agree, to be paid) on account of withdrawals made under Community Sub-project Grants in respect of the reasonable costs of goods, works and services required for Community Sub-projects, and in respect of which the withdrawal from the GEF Trust Fund Grant Account is requested.

Section 2.03. The Closing Date shall be June 30, 2010 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause KARI to perform in accordance with the provisions of the Project Agreement all the obligations of KARI therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable KARI to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Recipient shall make the proceeds of the GEF Trust Fund Grant available to KARI under a Subsidiary Grant Agreement to be entered into between the Recipient and KARI, under terms and conditions which shall have been approved by the Bank.

(c) The Recipient shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the Project, and, except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 1 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

Section 3.03. The Recipient and the Bank hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by KARI pursuant to Section 2.04 of the Project Agreement.

Section 3.04. Without limitation upon its obligations under Section 3.01 of this Agreement, and except as the Recipient and the Bank shall otherwise agree, the Recipient shall:

(a) open and maintain in KARI's name in Kenya Shillings, until the completion of the Project, a Project Account in a commercial bank acceptable to the Bank, under terms and conditions satisfactory to the Bank, to finance the Recipient's contribution to the expenditures under the Project;

(b) deposit into the Project Account: (i) an initial amount of \$10,000 equivalent; and (ii) thereafter, at quarterly intervals, such amounts agreed upon between the Recipient and the Bank as are estimated to be required at any given time for the ensuing three-month period; and

(c) ensure that the funds deposited into the Project Account in accordance with paragraph (b) of this Section shall be used exclusively to finance the Recipient's contribution to the expenditures under the Project other than those financed from the proceeds of the GEF Trust Fund Grant.

ARTICLE IV

Financial Covenants

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

- (b) The Recipient shall:
- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement or on the basis of statements of expenditure, the Recipient shall:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports or statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

ARTICLE V

Remedies

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

(a) KARI shall have failed to perform any of its obligations under the Project Agreement; and

(b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that KARI will be able to perform its respective obligations under the Project Agreement.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Grant Agreement has been executed on behalf of the Recipient and KARI;

(b) KARI shall have appointed the staff referred to in Section I(2)(c) of Schedule 2 to the Project Agreement, all with qualifications and terms of reference satisfactory to the Bank, and in accordance with the Provisions of Section III of Schedule 1 to the Project Agreement;

(c) the Project Account shall have been opened and credited with the Initial Deposit; and

(d) KARI shall have furnished to the Bank the Project Implementation Plan in form and substance satisfactory to the Bank.

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

ARTICLE VII

Representative of the Recipient; Addresses

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

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

For the Recipient:

The Minister for Finance
Ministry of Finance
P.O. Box 30007
Nairobi, Kenya

Cable address:
FINANCE
NAIROBI

Facsimile:
254 2 240045
254 2 219365

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI)
64145 (MCI)

(202) 477-6391

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

REPUBLIC OF KENYA

By /s/ David Mwiraria

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as an Implementing Agency of the Global Environment Facility

By /s/ Colin Bruce

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

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

<u>Category</u>	Amount of the GEF Trust Fund Grant Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods	756,000	100% of foreign expenditures, 90% of local expenditures
(2) Consultants' Services, including audits	1,551,000	100% of foreign expenditures and 94% of local expenditures
(3) Training	201,000	100%
(4) Community Sub-project Grants	607,000	100% of amounts disbursed
(5) Operating Costs	693,000	95%
(6) Unallocated	292,000	
TOTAL	<u>4,100,000</u> =====	

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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

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

(c) the term "training" means expenditures associated with tuition fees, travel, accommodation, subsistence and incidental expenses incurred for the purposes of carrying out training seminars and workshops and study tours under the Project; and

(d) the term "operating costs" means the incremental operating costs incurred on account of Project implementation, including vehicles operation and maintenance, communication, reasonable Special Account banking charges, rental expenses, office maintenance costs, equipment and office supplies, utilities, consumables, travel cost and per diem for Project staff, but excluding salaries of officials of the Recipient's civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments for expenditures: (a) prior to the date of this Agreement; and (b) under Category (4) of the table set forth under paragraph 1 of this Schedule 1, for any Community Sub-project Grant, unless the Community Sub-project Grant has been made in accordance with the provisions set forth in Section III of Schedule 2 to the Project Agreement and with the PIP and the ESMF.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods costing less than \$150,000 equivalent per contract; (b) services of consulting firms costing less than \$100,000 equivalent per contract; (d) services of individual consultants costing less than \$50,000 equivalent per contract; (e) training; (f) Community Sub-projects; and (g) operating costs, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the GEF Trust Fund Grant Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Recipient. In the case of the first such request submitted to the Bank before any withdrawal has been made from the GEF Trust Fund Grant Account, the Recipient shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

6. If the Bank shall have determined at any time that any amount of the GEF Trust Fund Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Bank, refund to the Bank for deposit into the GEF Trust Fund Grant Account an amount equal to the amount so used.

B. Special Account

1. The Recipient may open and maintain in Dollars a special deposit account in a commercial Bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the GEF Trust Fund Grant Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the GEF Trust Fund Grant Account; or

(c) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the GEF Trust Fund Grant Agreement.

Annex A

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of US\$ 400,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.
 - (b) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.
3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the GEF Trust Fund Grant minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the GEF Trust Fund Grant Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the GEF Trust Fund Grant, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the [six-month period] following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the productivity and sustainability of land use systems in selected watersheds in the Project Area, and to promote a set of integrated ecosystem management interventions so as to achieve local and global environmental benefits.

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

Part A. Capacity Building for Community Driven Integrated Ecosystem Management

1. Strengthening of the local development and integrated ecosystem management planning capacity of rural communities, and preparation of PAPs, management plans for critical non agro-ecosystem sites and Community Sub-project proposals through participatory rapid appraisal methods.
2. Strengthening of the land and integrated ecosystem management planning capacity of local governments to identify and implement specific integrate ecosystem management interventions.
3. Sensitizing and building the capacity of central and local government institutions and communities to manage carbon assets and develop administrative processes required to enter into carbon sequestration contracts, and building the capacity of KARI to measure carbon baselines and stocks and establish a national carbon monitoring, evaluation and certification system.

Part B. Financing of Integrated Ecosystem Management Interventions

Provision of Community Sub-project Grants to Beneficiaries for the implementation of selected integrated ecosystem management activities identified in the PAPs prepared under Part A.1 of the Project, including, among others, activities in the following areas:

- (i) development of village nurseries to support agro-forestry;
- (ii) conservation of existing biodiversity resources through adoption of protective measures or support to alternative livelihood strategies and small scale income generating activities that reduce pressure on critical habitats;
- (iii) dissemination of improved fallow and cover crop technologies to control land degradation and reduce sediment loss;
- (iv) carrying out of training on improved land management practices;
- (v) carrying out of activities to increase plant or tree cover on and off farm in order to sequester carbon in agricultural landscapes;

- (vi) carrying out of small scale infrastructure activities such as protection of river banks and construction of water pans; and
- (vii) testing and demonstration in selected pilot areas of integrated ecosystem management options identified under the PAPs, and carrying out of information dissemination activities such as participatory adaptive on-farm research, establishment of farmer field schools, and provision of farmer to farmer training.

Part C. Establishment of a Monitoring and Evaluation System

Establishment of a participatory monitoring and evaluation system in order to assess the outcomes and the socioeconomic, biophysical and other impacts of Project interventions and to refine working methodologies and procedures for the purposes of the Project, including (i) development and implementation of tools for Community level monitoring and assessment of the achievement of the social, economic, agricultural and environmental objectives of PAPs; (ii) monitoring of biodiversity and river basin impact indicators; and (iii) monitoring of greenhouse gases through remote sensing and field surveys and carrying out of targeted research activities to explore cost effective monitoring procedures beyond the term of the Project.

Part D. Project Administration

Provision of support to the PCO for the coordination, administration, monitoring and evaluation, and auditing of all Project activities.

* * *

The Project is expected to be completed by December 31, 2009.