

CONFORMED COPY

CREDIT NUMBER 4074 ALB

Development Credit Agreement

(Natural Resources Development Project)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 29, 2005

CREDIT NUMBER 4074 ALB

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 29, 2005, 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 International Bank for Reconstruction and Development (the Bank), acting as an implementing agency (the 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, a grant in an amount of five million Dollars (\$5,000,000) (the GEF Trust Fund Grant) to assist in financing part of the Project on the terms and conditions set forth in a trust fund grant agreement of even date herewith between the Borrower and the Implementing Agency (as the same may be amended from time to time) (the GEF Trust Fund Grant Agreement), and such term includes all schedules to the GEF Trust Fund Grant Agreement);

(C) the Borrower intends to contract from the Government of Sweden a grant (the Sida Grant) in an aggregate principal amount of forty million Swedish Kronor (SEK 40,000,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Government of Sweden (the Sida Grant Agreement); and

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 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

- (a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

- (b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “AFP” means the Albania Forestry Project, implemented by the Borrower pursuant to the Development Credit Agreement dated May 3, 1996 between the Association and the Borrower;

(b) “DFS” means the District Forest Service within the MAF (as hereinafter defined), located at District level;

(c) “DGFP” means the Directorate General of Forests and Pastures within the MAF (as hereinafter defined);

(d) “EMF” means the Environmental Management Framework, satisfactory to the Association, dated February 28, 2005, setting forth procedures and measures to mitigate any adverse impacts on the environment, as the same may be amended from time to time with the agreement of the Association;

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

(f) “Eligible Expenditures” means the expenditures for goods, works, consultants’ services and training referred to in Section 2.02 of the Agreement;

(g) “FPUAs” means the Forest and Pasture User Associations, non-governmental organizations consisting of members of the public that are using forest and pasture resources in the territory of the commune;

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

(i) “Fiscal Year” means the 12-month period commencing on January 1 and ending on December 31;

(j) “Forest and Pasture Registers” means the register for forest management plans and the register for pasture management plans housed in DGFP, which contain technical information on Albania’s forests, as well as basic information for each forest unit, such as species composition and areas and volume of standing timber;

(k) “LAPs” means Land Administration and Protection Offices within the Ministry of Agriculture and Food of the Borrower;

(l) “MAF” means the Ministry of Food and Agriculture of the Borrower, and includes any successor thereto;

(m) “MC” means micro-catchment, a small catchment area within a watershed defined by hydrological boundaries;

(n) “National Strategy for the Development of Forests and Pastures” means the strategic document that was approved by the Borrower on April 30, 2004 and is based on the Ministerial Declaration on the Future of Albania’s Forest and Pasture Sector;

(o) “PIM” means the Project Implementation Manual, referred to in paragraph (b) of Section 3.01, satisfactory to the Association and adopted by the Borrower on April 25, 2005, setting out the operational and administrative procedures for the implementation of the Project, as the same may be amended from time to time by agreement between the Association and the Borrower;

(p) “PIOC” means the Project Implementation Oversight Committee, a committee chaired by the Minister of Agriculture and Food, which includes representatives of the Ministry of Environment, the Ministry of Decentralization and Local Government, the National Federation of Forest and Pasture User Associations, and Non Governmental Organizations;

(q) “PMT” means the Project Management Team within the DGFP, as referred to in paragraph 1 (a) (ii) of Schedule 4 to this Agreement;

(r) “PTC” means the Project Technical Committee within the MAF, as referred to in paragraph 1 (a) (i) of Schedule 4 to this Agreement;

(s) “Procurement Plan” means the Borrower’s procurement plan, dated March 7, 2005 covering the entire period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement;

(t) “RWSTs” means Regional Watershed Support Teams, established in the administrative regions of Dibra, Kukes, Lezha, Elbasan and Korce, and staffed with the Regional Managers and, as appropriate, other staff from DFS, the Regional Coordinators, and staff assigned from the Regional Agricultural Directorates, as referred to in paragraph 1 (b) (ii) of Schedule 4 to this Agreement;

(u) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in paragraph 5 of Part A of Schedule 1 to this Agreement; and

(v) “Special Account” means the account referred to in Part B of Schedule 1 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 this Agreement, an amount in various currencies equivalent to four million six hundred thousand Special Drawing Rights (SDR 4,600,000).

Section 2.02. 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, works, consultants’ services and training required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be November 1, 2010 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 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 Credit withdrawn and outstanding from time to time.

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

Section 2.07. (a) The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing October 15, 2015 and ending April 15, 2025. Each installment shall be five per cent (5%) of such principal amount.

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 with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, forestry and agricultural 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 PIM and the Implementation Program set forth in Schedule 4 to this Agreement.

(c) 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, commencing in Fiscal Year 2006, review with the Association, by September 30 of each year, the provision for counterpart funds that are necessary for Project implementation in the following fiscal year and allocate adequate funds for such purposes in the Borrower's National Budget for the following Fiscal Year.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works (including technical services) 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, as said provisions may be further elaborated in the Procurement Plan and in the Project Implementation Manual.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes 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 a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower 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 Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association): (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 Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may 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 reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 3 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

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

- (a) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the GEF Trust Fund Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GEF Trust Fund Grant Agreement.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under the GEF Trust Fund 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.

(b) The Borrower shall have failed to perform any of its obligations under the GEF Trust Fund Grant Agreement.

(c) The PIM shall have been amended, suspended, abrogated, repealed or waived, so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely that any events specified in paragraphs (b) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

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 the GEF Trust Fund Grant Agreement has been duly executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled.

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

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

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
Bulevardi "Deshmoret e Kombit"
Tirana
Albania

Facsimile:

355 42 28494

For the Association:

International Development Association
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 Tirana, Albania, as of the day and year first above written.

ALBANIA

By /s/ Arben Malaj

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nadir Mohammed

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	285,000	89%
(2) Works	3,230,000	89%
(3) Management Planning	680,000	89%
(4) Training	100,000	89%
(5) Incremental Operating Costs	<u>305,000</u>	89%
TOTAL	<u>4,600,000</u>	

2. For the purposes of this Schedule:

(a) the term “Training” means expenses incurred by the Borrower in connection with carrying out training activities, study tours and workshops under the Project, including travel costs and per diem for local trainees, trainers and workshop attendees, rental of facilities and equipment and training materials and related supplies;

(b) the term “Incremental Operating Costs” means reasonable and necessary incremental expenditures, as approved by the Association on the basis of budgets acceptable to the Association, which would not have been incurred in the absence of the Project and include, inter alia, costs with respect to: (i) maintenance and operation of office equipment and vehicles procured or used for the management of the Project; (ii) salaries paid to staff, other than civil servants’ salaries, hired for purposes of the Project; (iii) travel costs and per diem paid to staff hired for purposes of the Project; and (iv) office supplies and utilities; and

(c) the term "Management Planning" means expenditures for costs of preparation and updating of communal forest and pasture management plans and preparation of MC resource management plans, including per diem and travel expenditures for DFS staff and RWST staff, directly associated with implementation of Project activities.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of thirty three thousand Special Drawing Rights (SDR 33,000) may be made in respect of the Eligible Categories on account of payments made for expenditures before that date but after March 1, 2005.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) works costing less than \$100,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) all goods, works and consultants' services under contracts between communes and FPUAs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. Upon receipt by the Borrower of a written notice from the Association, the Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

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

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

(a) if the Borrower 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 Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provision 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 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.

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

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

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) 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: (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 Association shall not be required to make further deposits into the Special Account in accordance with the provisions of paragraph 2 of Part B of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association 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 Borrower of its determination.

6. (a) If the Association 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 Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 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 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 subparagraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this 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\$700,000 to be withdrawn from the Credit 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 Borrower shall furnish to the Association 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 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 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 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit 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.

**Annex B
to
SCHEDULE 1**

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

1. Withdrawals from the Credit Account shall be deposited by the Association 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 Association from the Credit Account under the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association 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 objective of the Project is to establish and maintain sustainable, community-based management of natural resources in about 218 communes in upland and mountainous erosion-prone lands.

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 objective:

Part A: Management and Governance of Forests and Pastures

1. Strengthening of participatory forest and pasture management in communes that were supported under the AFP, through:

(a) updating existing communal forest and pasture management plans established under the AFP in about 115 communes;

(b) implementation of updated communal forest and pasture management plans in these communal forests and pastures through provision of small-scale investments; and

(c) support of assisted natural forest regeneration to sequester carbon for the purpose of capturing carbon finance resources through financing of small-scale investments in about 30 communes.

2. Introduction of participatory forest and pasture management in about 73 additional communes, through:

(a) preparation of communal forest and pasture management plans; and

(b) implementation of communal forest and pasture management plans.

3. Strengthening of governance for forest and pasture management, through:

(a) building of capacity of new and existing Forest and Pasture User Associations by assessing capacity and training needs for the FPUAs and implementing a nationwide program to strengthen governance and management competences of the FPUAs;

(b) training of key DGFP staff at national level and in Regional Directorates of DGFP, and of key DFS staff, to become forest and pasture extension advisers; and

(c) implementation of priority actions foreseen by the National Strategy for the Development of Forests and Pastures, including: (i) support of institutional reform and development within DGFP and DFS; (ii) building awareness of the National Strategy for the Development of Forests and Pastures within DGFP and DFS; (iii) strengthening and improving the legal and regulatory framework for forest and pasture management; (iv) developing the Forest and Pasture Registers; (v) developing and implementing an action plan to address illegal logging in Project areas; and (vi) improving forest fire management at commune levels.

Part B: Management and Governance of Watersheds

1. Introduction of integrated resource management in about 30 micro-catchments encompassing approximately 190,000 ha, through:

(a) preparation of about 30 communal forest and pasture management plans and MC resource management plans; and

(b) implementation of these communal forest and pasture management plans and MC resource management plans through financing of small-scale investments and providing technical support for, inter alia, communal forest and pasture management, rehabilitation of State forests, and agricultural and livestock developments.

2. Strengthening of governance for watershed management, through: (a) training of regional agricultural directorates, drainage boards, DFS and commune staff at commune, regional and national level in the provision of extension advice for MC management; (b) strengthening the Land Administration and Protection Offices; and (c) providing legal advice and public consultation workshops on the laws governing land tenure and user rights.

Part C: Project Management and Monitoring

1. Building of awareness among beneficiaries and other stakeholders at national, regional and commune level of the needs of, and opportunities provided by, community-based resource management and related issues such as fire management and control of illegal logging.

2. Management, monitoring and evaluation of the Project.

3. Implementation of the Environmental Management Framework.

4. Verification and monitoring of carbon sequestration, as required by the Kyoto Protocol.

* * *

The Project is expected to be completed by May 1, 2010

SCHEDULE 3

Procurement

Section I. General

A. All goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods and Works

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. Shopping. Goods and works estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

2. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants’ Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

5. Community Participation. Services required for Part A. 2 (a) and Part B. 1 (a) of the Project estimated to cost less than \$10,000 per contract may be procured on the basis of community participation in accordance with the procedures spelled out in the Procurement Plan and in the Project Implementation Manual.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods and works estimated to cost the equivalent of \$100,000 or more procured on the basis of International Competitive Bidding; (b) each contract for consultants' services estimated to cost the equivalent of \$100,000 or more; (c) all contracts for consultants' services procured on the basis of Single Source Selection; and (d) all contracts for goods and works procured on the basis of Direct Contracting, except contracts between the communes and the FPUAs. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project in accordance with the following coordination mechanisms:

- (a) At the national level:
 - (i) The MAF, through the DGFP, shall be responsible for the overall implementation of the Project. The PTC, located within the MAF, shall provide oversight and technical advice on project implementation. The PTC shall be chaired by the Director of the Agriculture Program Office within the MAF and shall include the participation of the General Director of DGFP and of several sections of the MAF: the Agriculture Program Office, the Rural Development Directorate, the Land Administration and Management Directorate and the Legal and Finance Departments. It shall also comprise representatives of the national Federation of FPUAs, the National Secretariat for Watershed Management of the Ministry of Territorial Adjustment and Tourism, and Non-Governmental Organizations.
 - (ii) The PMT shall be responsible for overall management of the Project, including preparation and implementation of work plans, procurement, financial management, reporting and monitoring and evaluation. The PMT shall include staff assigned from within the DGFP and a contracted Project Manager. The Director of the Directorate of Communal Forest, Pastures and Extension Services shall be assigned as Project Coordinator. The PMT shall be supported by five contractual staff and shall include assigned staff charged with monitoring and evaluation of the Project, as set forth in detail in the PIM.
 - (iii) The PIOC shall provide inter-ministerial coordination and oversight of the Project.
- (b) At the regional level:
 - (i) For general oversight and implementation of the Project, Regional Managers shall be appointed in DFS in each of the Borrower's twelve administrative regions.

- (ii) For regional oversight and implementation of Part B of the Project, Regional Coordinators shall be hired for the DFS offices of Dibra, Korce, Kukes and Lezha and at the Regional Forest Directorate at Elbasan to assist the Regional Managers. RWSTs shall be established and maintained at Dibra, Kukes, Lezha, Elbasan and Korce to facilitate and coordinate the micro-catchment planning and implementation. The RWSTs shall include the Regional Managers, the Regional Coordinators, staff assigned from the Regional Agricultural Directorates, and other staff of DFS as appropriate.

(c) At the communal level, commune councils and the FPUAs are responsible for implementation of the Project.

2. The Borrower shall ensure that, during the entire life of the Project, the PIOC, the PTC, the PMT and the RWSTs are operational, adequately staffed, and maintained, under terms of reference acceptable to the Association.

3. 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 May 1, 2008, 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 Association, by July 30, 2008, or such later date as the Association 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 Association's views on the matter.

4. The Borrower shall prepare and furnish to the Association, not later than September 30 of each year, for review and comment, the budget for the DGFP of the MAF for each calendar year.

5. The Borrower shall take, or cause to be taken, all measures necessary to ensure that the Project is implemented in full compliance with the provisions of the

Environmental Management Framework and the Project Implementation Manual in a timely manner.