

CONFORMED COPY

CREDIT NUMBER 3699-GE

Development Credit Agreement

(Forests Development Project)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 3, 2002

CREDIT NUMBER 3699-GE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 3, 2002, between GEORGIA (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; 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 October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

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) "Central Caucasus Pilot Area" means the territory of the Borrower's districts of Ambrolauri, Lentekhi, Mestia, Oni, Tsageri and of such other district or districts agreed upon by the Borrower and the Association for the carrying out Part B of the Project;

(b) "Eligible Categories" means categories (1), (2), (3), (4) and (5) set forth in the table in Schedule 1 to this Agreement;

(c) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 (a) of this Agreement;

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

(e) “FSDC” means the Forest Sector Development Center, a legal entity established by the President of the Borrower pursuant to the Borrower’s law “On Legal Bodies of Public Law”, dated May 28,1999, with the purpose of preparation and implementation of the Project and operating on the basis of its charter dated October 29, 2000 as it may be amended from time to time, or any successor or successors thereto;

(f) “Lari” means the lawful currency of the Borrower;

(g) “Letter of Forest Sector Development Policy” means a letter, satisfactory to the Association, discussed and adopted at a meeting of the Government of the Borrower and signed by the State Minister of the Borrower or any other person designated by the Borrower, outlining the reform agenda and plan for improving governance and curbing corruption and illegal activities in the forest sector;

(h) “MEPNR” means the Ministry of Environment and Protection of Natural Resources of the Borrower, or any successor or successors thereto;

(i) “MOF” means the Ministry of Finance of the Borrower, or any successor or successors thereto;

(j) “Operational Manual” means a manual, satisfactory to the Association, to be adopted by the Supervisory Board as hereinafter defined, setting forth procedures and rules related to Project implementation, as the same may be amended from time to time;

(k) “PIP” means the Project Implementation Plan for the carrying out of the Project prepared by FSDC and adopted by the Supervisory Board, as the same may be amended from time to time with the agreement of the Association;

(l) “Priority Areas” means the territories of the Borrower, selected by the SFD for the carrying out Part C of the Project, in accordance with the eligibility criteria set forth in the PIP, and acceptable to the Association, and “Priority Area” means each and any such territory;

(m) “Project Account” means the account to be opened by the Borrower in accordance with the provisions of Section 6.01 of this Agreement for purposes of making available its counterpart contribution to the financing of the Project;

(n) “Project Monitoring Indicators” means the indicators agreed upon by the Borrower and the Association, to monitor and evaluate, on ongoing basis, the carrying out of the Project and the achievement of Project objectives, referred to in paragraph 1 of Schedule 4 to this Agreement, and set forth in the Annex to Schedule 4 to this Agreement;

(o) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on March 16, 2000 and on behalf of the Borrower on April 19, 2000;

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

(q) “SFD” means the Borrower’s State Department of Forest Management or any successor or successors thereto; and

(r) “Supervisory Board” means the inter-agency Project supervisory board established by the Borrower as the top collegial body of the FSDC, and whose members include representatives of the MEPNR, MOF, SFD and other parties approved by the Borrower, and referred to in paragraph 3 of Schedule 4 to this Agreement, or any successor or successors thereto.

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 twelve million six hundred thousand Special Drawing Rights (SDR 12,600,000).

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, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for purposes of the Project, open and maintain in US Dollars a special deposit account in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. After the Bank has received evidence satisfactory to it that a Special Account has been opened 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 June 30, 2009, 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 (60) 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 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing October 1, 2012 and ending April 1, 2042. Each installment to and including the installment payable on April 1, 2022 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the 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 repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the 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.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the 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 with due diligence and efficiency and in conformity with appropriate financial, administrative, engineering, forestry and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the 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. Without limitation upon any of its obligations under Section 3.01 of this Agreement, the Borrower shall: (a) maintain the Project Account referred to in Section 6.01 of this Agreement, and shall replenish said account, if necessary, promptly every quarter with sufficient funds to enable the Borrower to meet its obligations under Section 3.01 of this Agreement for such period; (b) use the amount in said Project Account for financing the Borrower's contribution to Project expenditures; and (c) ensure that sufficient annual allocations will be made in the Borrower's budget for the Borrower's counterpart contribution to the costs of the Project.

Section 3.03. 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 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, through SFD 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 a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall through FSDC:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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 copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and 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 such records and accounts, and the audit thereof, 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 Financial Monitoring Reports or statements of expenditure, the Borrower shall through FSDC:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 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 Financial Monitoring Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the reporting obligations set forth in Sections 3.04 of this Agreement, the Borrower shall through FSDC prepare and furnish to the Bank financial monitoring reports, in form and substance satisfactory to the Bank, which:

- (i) set 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 Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describe 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) set forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than forty-five (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 Financial Monitoring Report shall be furnished to the Bank not later than forty-five (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) the PIP, shall have been amended, suspended, abrogated or waived without the Association's prior consent; and (b) the

Operational Manual shall have been amended, suspended, abrogated or waived without the Association's prior consent.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified: any event specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur.

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 the Borrower has opened the Project Account in Lari and has deposited into said Account an initial amount equivalent to \$50,000.

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

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
70, Irakli Abashidze Str.
380062
Tbilisi
Georgia

Telex:

Facsimile:

212 348 MOFIN SV

(995-32) 931922

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 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 Tbilisi, Georgia, as of the day and year first above written.

GEORGIA

By /s/ Mirian Gogiashvili

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Tefvik M. Yaprak

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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 amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works		
(a) for Parts A, B and C.1 of the Project	2,570,000	70%
(b) for Part C.2 of the Project	3,270,000	70%
(2) Goods	1,890,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 80% of local expenditures for other items procured locally
(3) Consultants' Services, including audit costs	2,960,000	80% for local firms and individuals; 90% for international firms and individuals; and 100% for eligible social charges
(4) Training, workshops and study tours	350,000	100%

<u>Category</u>	<u>Amount of Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Incremental operating costs	190,000	80% until June 30, 2003; 70% until June 30, 2004; 60% until June 30, 2005; 50% until June 30, 2006; and 40% thereafter.
(6) Refunding of Project Preparation Advance	800,000	Amount due pursuant to Section 2.02(b) of this Agreement
(7) Unallocated	<u>570,000</u>	
TOTAL	<u>12,600,000</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 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;

(c) the term “incremental operating costs” means reasonable operating expenditures incurred by the FSDC on account of management of Project implementation for communications, utilities, printing and publications, supplies, office security systems, vehicle operation and maintenance, equipment and software upgrades, transportation and field trip expenses, bank charges, and such other expenditures as may be agreed upon by the Association; and

(d) the term “eligible social charges” means the employers’ contribution to social and medical charges assessed by the Borrower on the employment contracts with citizens of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) category 1(b) of the table in paragraph 1 of this Schedule until the Borrower has approved mechanisms for sustainable provision of funding for public forest management for afforestation and reforestation.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) works under contracts costing less than \$300,000 equivalent each and forest works contracts estimated to cost less than \$500,000 equivalent per contract; (c) training, workshops and study tours; (d) Incremental Operating Costs for the FSDC; and (e) services costing less than \$100,000 equivalent each for consulting firms and \$25,000 equivalent each for individual consultants, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to establish sound forest management systems which would maximize the contribution of forests to the Borrower's economic development and rural poverty reduction on an environmentally sustainable basis.

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: Improvement of Forest Sector Governance through
National Regulatory, Financial and Institutional Reforms**

Improvement of legal, regulatory, financial and policy framework in accordance with the Borrower's Letter of Forest Sector Development Policy, development of the national forest policy, including standards and forest certification, strengthening of institutions and human resources and building public support for improved forest management and monitoring through the financing of goods, services, training and incremental operating costs.

Part B: Improved Forest Planning and Management in the Central Caucasus Pilot Area

Development of landscape-ecological plans and improved forest inventories, establishment of a forest management information system for improved forest management planning and monitoring, demonstration of environmental forest harvesting and road operations for forest management in compliance with environmental standards and forest management plans, and development and implementation of pilot community forestry programs in the Central Caucasus Pilot Area for dissemination of best practices in other territories of the Borrower through the financing of goods, works, services, training and incremental operating costs.

Part C: Forest Protection and Reforestation in the Priority Areas

1. Strengthening of forest inspection and enforcement for verification of local forest operations, improvement of forest hazard management, pest and fire monitoring, development of seed and nursery facilities and planning of reforestation and afforestation in the Priority Areas – through the financing of goods, works, services, training and incremental operating costs.

2. Implementation of a pilot program of reforestation and afforestation with community participation in the Priority Areas for dissemination of best practices in other territories of the Borrower through the financing of works.

Part D: Project Management and Monitoring

Assistance in the management and implementation of the Project, including procurement related activities, training in the management, implementation and monitoring of the Project, design and implementation of a system of financial management and accounting, preparation of the accounts and financial statements referred to in Section 4.01 of this Agreement, audit of the accounts and financial statements referred to above, and institutional strengthening of the FSDC through the financing of goods, works, services (including external auditing services), training and incremental operating costs.

* * *

The Project is expected to be completed by December 31, 2008.

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: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods and domestic contractors

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 and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$300,000 equivalent per contract and forest works contracts estimated to cost less than \$ 500,000 equivalent per contract, up to an aggregate amount not to exceed \$8,610,000 equivalent, 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 \$100,000 or less equivalent per contract, up to an aggregate amount not to exceed \$248,000 equivalent, 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. Procurement from IAPSO.

As an alternative to international shopping procedures under paragraph 2 above, goods may be procured through the Inter-Agency Procurement Services Office (IAPSO) of the United Nations Development Program (UNDP) in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,450,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three (3) eligible and 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 quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the 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

(a) With respect to (i) each contract for goods and works procured in accordance with international competitive bidding procedures; and (ii) the first two contracts procured in accordance with national competitive bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts procured in accordance with international shopping procedures; (ii) the first two contracts procured in accordance with national shopping procedures; and (iii) the first two contracts procured in accordance with small works procedures, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, or any contractor under small works procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of the contract procured under shopping procedures or under small works procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services estimated to cost less than \$120,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

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

3. Individual Consultants

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

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

1. Selection Planning

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

2. Prior Review

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

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

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) Notwithstanding the provisions of sub-paragraph (b) above, the terms of reference for the employment of consultants shall be furnished to the Association for its prior review and approval irrespective of the value of the contract.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. Without limitations upon the generalities of the obligations in Section 3.01 (a), the Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the Letter of Forest Sector Development Policy, the Operational Manual and the PIP.
2. During execution of the Project site specific environmental impact assessments, satisfactory to the Association, will be prepared and environmental permits issued in accordance with such environmental impact assessments.
3. Supervisory Board. The Supervisory Board shall be responsible for strategic oversight and inter agency coordination of the Project.
4. SFD. The SFD shall be responsible for the implementation of the Project and coordination and monitoring of the technical aspects of the Project and participate in the work of the Supervisory Board.
5. MOF. The MOF shall be responsible for monitoring of the financial aspects of the Credit and participate in the work of the Supervisory Board.
6. MEPNR. The MEPNR shall be responsible for the monitoring of the environmental aspects of the Project in accordance with the environmental legislation of the Borrower and participate in the work of the Supervisory Board.
7. FSDC. The Borrower shall ensure that the FSDC shall:
 - (a) assist the SFD in the implementation of the Project and coordination and monitoring of the technical aspects of the Project;
 - (b) be responsible for day-to-day administrative aspects of the Project, including financial management, procurement, disbursement, engagement of external auditors and preparation of appropriate auditing reports and their dissemination to relevant agencies of the Borrower and to the Association;
 - (c) prepare quarterly progress reports in respect of the Project and furnish them to the Supervisory Board and the Association not later than 30 days after the end of each quarter, the first such report to be furnished to the Association not later than December 31, 2002; and

(d) for each calendar year during the implementation of the Project, prepare and furnish for approval to the Association by August 1 of the preceding year, a proposed annual budget, annual work plan, and annual procurement plan, all in such detail as shall be reasonably requested.

8. The Borrower shall ensure that until the completion of the Project, the FSDC functions in a manner, with qualified staff and consultants, and with facilities and other resources necessary for the Project and satisfactory to the Association. The Borrower shall ensure that the FSDC carries out its activities and responsibilities under the Project in accordance with the above annual work and procurement plans, budget, the Operating Manual, and the PIP.

9. Project Monitoring and Evaluation. (a) The Borrower shall through SFD maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators (the Project Monitoring Indicators) set forth in the Annex to this Schedule 4, the carrying out of the Project and the achievement of the objectives thereof.

(b) For each year of Project implementation, the Borrower shall, through the FSDC, prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph 9, on the progress achieved in the carrying out of the Project during the preceding year, 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.

(c) For each year of Project implementation, the Borrower, through the Supervisory Board, shall review with the Association, by April 30 or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph 9, 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 reports and the Association views on the matter.

Annex

Project Monitoring and Evaluation Indicators

1. Increase in public forest revenues per unit of area from improved forest monitoring, fee collection mechanisms and more efficient resource use in project areas.
2. Increase in area covered by forest inventory carried out in accordance with the improved methodology and management plans and managed by properly trained and equipped forest management units.
3. Decrease in area of degraded lands through priority afforestation, restoration and protection programs for the shelter belts, eroded areas and coppice forests.
4. Improve affordability of fuelwood as well as increase the revenues for local population through improved forest management programs.
5. Increase in public support for sustainable forest management and participation of civil society in forest management and monitoring.
6. Procurement, disbursement, reporting and Project management undertaken according to an agreed upon implementation plan and within the agreed budget.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) “Eligible Categories” means categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) “Eligible Expenditures” means the expenditures for goods, works, services, Sub-grants and operating costs referred to in Section 2.02 (a) of this Agreement.

(c) The term “Authorized Allocation” means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into 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 3,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the 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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the 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, minus the total amount of all outstanding special commitments 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.

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