

Public Disclosure Authorized

IDA GRANT NUMBER H087 MAG

Development Grant Agreement

(Third Environment Program Support Project)

between

MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 21, 2004

Public Disclosure Authorized

IDA GRANT NUMBER H087 MAG

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated May 21, 2004, between the Republic of Madagascar (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient, 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 Project supports the third phase of the Recipient's National Environmental Action Plan (NEAP) as set forth in Madagascar's Environmental Charter adopted under Law No. 90/033, dated December 21, 1990, and subsequently modified under Law No. 97/012, dated June 6, 1997, for which the Recipient has already sought and obtained the support of the donor community over a fifteen year period;

(C) the Association has received a letter from the Recipient, dated January 30, 2004, describing the Recipient's vision, priorities and strategies for the sustainable management of its environment (the Program), and declaring the Recipient's commitment to the execution of the Program;

(D) the Recipient has also requested the International Bank for Reconstruction and Development (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) to provide additional assistance towards the financing of the Project and, by an agreement of even date herewith between the Recipient and the Bank (the GEF Trust Fund Grant Agreement), the Bank has agreed to provide such assistance in an aggregate principal amount equivalent to nine million Dollars (\$9,000,000) (the GEF Trust Fund Grant) on the terms and conditions set forth in the GEF Trust Fund Grant Agreement; and

(E) the Recipient intends to reach agreement with other donors (Other Donors) in view of obtaining complementary grants in an aggregate amount equivalent to seventy-one million dollars (\$71,000,000) (Other Donors' Grants) to assist in financing the Project on the terms and conditions set forth in agreements to be entered into between the Recipient and such Other Donors (Other Donors' Grant Agreements).

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient 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 in Schedule 5 to this Agreement (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 respective meanings:

(a) “ANGAP” means *Association Nationale pour la Gestion des Aires Protégées*, a national association for the management of protected areas established and operating under the laws of the Recipient;

(b) “ANGAP Subsidiary Agreement” means the agreement referred to in Section 3.03 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the ANGAP Subsidiary Agreement;

(c) “ANGEF” means *Agence Nationale pour la Gestion des Eaux et Forêts*, a national association for the management of water and forest resources to be established pursuant to Section 3.02 of this Agreement and in accordance with the laws of the Recipient;

(d) “ANGEF Subsidiary Agreement” means the agreement referred to in Section 3.03 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the ANGEF Subsidiary Agreement;

(e) "CRO" means *Comité Régional d'Orientation*, a regional orientation committee;

(f) "DGE" means *Direction Générale de l'Environnement*, a General Directorate of MinEnvEF responsible for environment;

(g) "DGEF" means *Direction Générale des Eaux et Forêts*, a General Directorate of MinEnvEF responsible for water and forests;

(h) "EIA" means environmental impact assessment;

(i) "Eligible Categories" means Categories (1) through (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(j) "Eligible Expenditures" means expenditures for goods, works and services required for the Project, as well as the amount of any contribution to FPAB to be made in accordance with the FPAB Subsidiary Agreement, and to be financed out of the proceeds of the Grant allocated from time to time to the Eligible Categories;

(k) "Environmental Assessment and Management Plan" or "EA/EMP" means the Environmental Assessment and Management Plan, dated November 24, 2003, issued by the Recipient, providing a systematic analysis of all potential biophysical and social impacts associated with the Program, including a diagnostic assessment of the policy, institutional, legal and regulatory aspects of each component of the Project, an analysis of the potential adverse social and environmental impacts, and a checklist of measures designed to limit or mitigate such adverse impacts;

(l) "Financial Monitoring Report" or "FMR" means a report prepared in accordance with Section 4.02 (a) of this Agreement;

(m) "Fiscal Year" means the Recipient's fiscal year beginning on January 1 in any one calendar year and ending on December 31 of the same calendar year;

(n) "FPAB" means Foundation for Protected Areas and Biodiversity to be created pursuant to paragraph 9 of Schedule 4 to this Agreement and in accordance with the laws of the Recipient;

(o) “FPAB Subsidiary Agreement” means the agreement referred to in Section 3.03 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the FPAB Subsidiary Agreement;

(p) “GEF” means Global Environment Facility;

(q) “IPDP” means the Indigenous Peoples Development Plan referred to in paragraph 7 in Schedule 4 to this Agreement;

(r) “MECIE” means *Mise en Compatibilité des Investissements avec l’Environnement*, procedures for implementation of EIA legislation, as adopted under Decree No. 99-954, dated December 15, 1999;

(s) “MinEnvEF” means *Ministère de l’Environnement, des Eaux et Forêts*, the Recipient’s Ministry of the Environment, Water and Forests;

(t) “NEAP” means the Recipient’s National Environment Action Plan;

(u) “NGO” means non-governmental organization;

(v) “ONE” means *Office National pour L’Environnement*, the Recipient’s National Environment Office established as an independent agency pursuant to Decree No. 95/607, dated September 10, 1995, as amended by Decree Nos. 96/669, dated July 23, 1996;

(w) “ONE Subsidiary Agreement” means the agreement referred to in Section 3.03 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the ONE Subsidiary Agreement;

(x) “OSF” means *Observatoire du Secteur Forestier*, a Forest Sector Observatory established as an independent agency pursuant to Ministerial *Arrêté* No. 12703/2000, dated November 20, 2000, as amended by Ministerial *Arrêté* No. 6682/2001, dated June 19, 2001;

(y) “PISU” means the Project Implementation Secretariat Unit referred to in paragraph 1 (a) (iii) of Schedule 4 to this Agreement;

(z) "Process Framework" or "PF" meaning the Process Framework, dated November 24, 2003, issued by the Recipient, and describing a program of actions, measures and policies designed to avoid or minimize any adverse impact or hardship to PAPs as a result of the Project or, if such adverse impact or hardship cannot be avoided altogether, provide for the compensation of such PAPs, as may be appropriate;

(aa) "Process Framework Action Plan" or "PFAP" means a Process Framework Action Plan referred to in paragraph 8 of Schedule 4 to this Agreement;

(bb) "Project Account" means the project account referred to in Section 3.05 (a) of this Agreement;

(cc) "Project Affected Person" or "PAP" means any person or group of persons who owns or occupies land, property or other assets or structures which are adversely affected by the Project, or whose livelihood, business, trade or other occupation is adversely affected as a result of the Project, and who is declared accordingly eligible to compensation or other assistance under the PF or IPDP, as the case may be;

(dd) "Project Implementation Plan" means the Project Implementation Plan referred to in paragraph 3 (a) of Schedule 4 to this Agreement, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Project Implementation Plan;

(ee) "Project Preparation Advance" means the project preparation advance granted by the Association to the Recipient pursuant to the letter agreement signed on May 12, 2003 on behalf of the Association, and countersigned on May 16, 2003 on behalf of the Recipient;

(ff) "Protected Area" or "PA" means an area situate in a terrestrial, coastal or marine zone, designated as such under the laws of the Recipient and declared subject to a conservation management program; and

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

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty-six million eight hundred thousand Special Drawing Rights (SDR 26,800,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant 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 carrying out the Project described in Schedule 2 to this Agreement, as well as the amount of any contribution to FPAB to be made in accordance with the FPAB Subsidiary Agreement, and to be financed out of the proceeds of the Grant.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant 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. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant 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 Recipient from the Grant 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 2.04 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 Recipient; and (iii) in Dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.04. Commitment charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.05. The Closing Date shall be December 31, 2009 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MinEnvEF with due diligence and efficiency and in conformity with technical, administrative and financial practices, and with due regard to environmental and ecological considerations, 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 Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement, and the EA/EMP.

Section 3.02. The Recipient shall establish and thereafter maintain a specialized water and forest management agency to be known as *Agence Nationale pour la Gestion des Eaux et Forêts* (ANGEF), whose mandate, terms of reference and organizational structure shall be acceptable to the Association, to be responsible for all operational aspects of conservation and sustainable management of water and forest resources.

Section 3.03. (a) Upon the establishment of ANGEF, the Recipient shall, for purposes of Part A of the Project, transfer to ANGEF, on a grant basis, a portion of the proceeds of the Grant allocated to Part A of the Project, under a subsidiary agreement (the ANGEF Subsidiary Agreement) to be entered into between the Recipient and ANGEF under terms and conditions shall have been approved by the Association.

(b) For purposes of Part B.1 through B.4 of the Project, the Recipient shall transfer to ANGAP, on a grant basis, the portion of the proceeds of the Grant allocated to Part B.1 through B.4 of the Project, under a subsidiary agreement (the ANGAP Subsidiary Agreement) to be entered into between the Recipient and ANGAP under terms and conditions shall have been approved by the Association.

(c) For purposes of Part B.5 of the Project, the Recipient shall transfer to FPAB, on a grant basis, the portion of the proceeds of the Grant allocated to Category (6) of the table in Part A.1 of Schedule 1 to this Agreement, under a subsidiary agreement (the FPAB Subsidiary Agreement) to be entered into between the Recipient and FPAB on terms and conditions which shall have been approved by the Association, including provisions to ensure that, in the event of a merger or dissolution of the FPAB, such portion of the proceeds of the Grant would be recovered, in accordance with the statutes governing FPAB, and applied for purposes which shall be acceptable to the Association and consistent with the objectives of the Project.

(d) For purposes of Part C.1 and C.3 of the Project, the Recipient shall transfer to ONE, on a grant basis, the portion of the proceeds of the Grant allocated to Part C.1 and C.3 of the Project, under a subsidiary agreement (the ONE subsidiary agreement) to be entered between the Recipient and ONE on terms and conditions which shall have been approved by the Association.

(e) The Recipient shall exercise its rights under the ANGEF Subsidiary Agreement, ANGAP Subsidiary Agreement, FPAB Subsidiary Agreement and ONE Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association, and to accomplish the purposes of each of the grants, and, except as the Recipient and the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the ANGEF Subsidiary Agreement ANGAP Subsidiary Agreement, FPAB Subsidiary Agreement or ONE Subsidiary Agreement, or any provision thereof.

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

Section 3.05. Without limitation upon its obligation under Section 3.01 of the Agreement, the Recipient shall:

(a) maintain, in a commercial bank and on terms and conditions satisfactory to the Association, a Project account in Malagasy Francs or *Ariary* (hereinafter referred to as the Project Account), to be operated and maintained by PISU, into which it shall deposit from time to time its local counterpart contribution to the cost of the Project.

(b) deposit into the Project Account an initial advance equivalent to \$500,000, and thereafter replenish the Project Account on a quarterly basis, and whenever the balance thereof equals not more than one third of the amount of the initial deposit.

(c) ensure that funds deposited into the Project Account shall be used only for the purposes of defraying the cost of expenditures incurred in the execution of the Project which are not financed out of the proceeds of the Grant.

Section 3.06. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, a plan designed to ensure the continued achievement of the objectives of the Project; and

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

ARTICLE IV

Financial Covenants

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

(b) The Recipient shall:

(i) have the financial statements referred to in paragraph (a) of this Section, for each Fiscal Year (or other period agreed to by the 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 Fiscal 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 said records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant 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 Recipient shall:

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

(d) For purposes of Parts B.1 through B.4, and C.1 and C.3, of the Project, the Recipient shall cause ANGAP and ONE, respectively to establish and 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 its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(e) Upon the establishment of ANGEF and FPAB, the Recipient shall, for purposes of Parts A and B.5 of the Project, cause ANGEF and FPAB, respectively, to establish and 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 its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(f) The Recipient shall cause ANGAP and ONE, and, as the case may be, FPAB and ANGEF, to:

- (i) have the respective financial statements referred to in paragraphs (d) and (e) 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 respective financial statements referred to in paragraphs (d) and (e) of this Section for such year (or such 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, accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) The Recipient 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 Grant, 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 (1) of the General Conditions, the following additional events are specified:

- (a) a situation has arisen which shall make it improbable that the Program or a significant part of it will be carried out;
- (b) the GEF Trust Fund Grant Agreement or any of the Other Donors' Grant Agreements shall have failed to become effective by December 31, 2004, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement;

(c) ANGAP, FPAB, ONE or ANGEF shall have failed to comply with any of their obligations under the ANGAP Subsidiary Agreement, FPAB Subsidiary Agreement, ONE Subsidiary Agreement or ANGEF Subsidiary Agreement, as the case may be;

(d) the statutes of FPAB shall have been amended, suspended or abrogated so as to affect materially and adversely the ability of FPAB to perform any of its obligations thereunder, or any action shall have been taken for the dissolution, disestablishment or suspension of its operations; and

(e) (i) Subject to subparagraph (ii) of this paragraph, the right of the Recipient to withdraw the proceeds of the GEF Trust Fund Grant or any of the Other Donors' Grants made to the Recipient 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 or any of the Other Donors' Grant Agreements providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effectiveness; Termination

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

(a) the Project Account has been duly opened and the amount of the initial advance deposited therein in accordance with Section 3.04 (b) of this Agreement;

(b) the ANGAP Subsidiary Agreement and ONE Subsidiary Agreement have been duly executed, authorized or ratified by the respective parties thereto, and are legally binding upon the respective parties in accordance with their terms; and

(c) the Recipient has established a financial management system, acceptable to the Association, in accordance with Section 4.01 (a) and (d) of this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the ANGAP Subsidiary Agreement and ONE Subsidiary Agreement have been duly executed, authorized or ratified by the respective parties thereto, and are legally binding upon the respective parties in accordance with their 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 Recipient; Addresses

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

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

For the Recipient:

Ministry of Economy, Finance and Budget
B.P. 61
Antananarivo 101
Madagascar

Cable address:

Facsimile:

MEFB
Antananarivo

(261) 20 22 34530

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) (202) 477-6391
64145 (MCI)

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

REPUBLIC OF MADAGASCAR

By /s/ Benjamin Andriamparany Radavison
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Hafez Ghanem
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

A. General

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	7,810,000	100 % of foreign expenditures; 80% of local expenditures
(2) Goods	3,350,000	100% of foreign expenditures; 80% of local expenditures
(3) Consultants' services and audits	2,980,000	85% of foreign expenditures ; 75% of local expenditures
(4) Training	1,450,000	100%
(5) Operating costs	3,560,000	80%

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(6) Grant to FPAB		100% of amount of grant disbursed
(a) first tranche	2,680,000	
(b) second tranche	2,340,000	
(7) Refunding of Project Preparation Advance	1,330,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(8) Unallocated	1,300,000	
TOTAL	<u>26,800,000</u> =====	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods, works or services supplied from the territory of any country other than that of the Recipient;

(b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods, works or services supplied from the territory of the Recipient; and

(c) the term “operating costs” means the incremental operating costs arising under the Project on account of local contractual support staff salaries, social benefits, travel expenditures and other travel-related allowances; equipment rental and maintenance; vehicle operation, maintenance and repair; office rental and maintenance, materials and supplies; and utilities and communications' expenses; and banking charges and insurance, but excluding the salaries of staff of the Recipient's civil service.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR2,680,000, may be made on account of payments made for expenditures before that date but after February 29, 2004;

(b) payments for expenditures under Category (6) (a) of the table in paragraph 1 of this Schedule, unless: (i) FPAB has been duly established, and the requirements of paragraph 9 of Schedule 4 to this Agreement fully complied with; (ii) the FPAB Subsidiary Agreement has been duly executed, authorized or ratified by the respective parties thereto and is legally binding upon the respective parties in accordance with its terms; and (iii) independent auditors acceptable to the Association shall have reviewed FPAB's financial performance for a period of at least one full year following the launch of its operations and provided an unqualified opinion thereon;

(c) payments for expenditures under Category (6) (b) of the table in paragraph 1 of this Schedule, unless: (i) the actions specified in subparagraph (b) of this paragraph have been fulfilled, and the amount of the first tranche has been released accordingly; and (ii) the cumulative contributions of Other Donors, excluding contributions made out of the proceeds of grants or other funds provided by the Association, have reached an aggregate of \$15,000,000.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts below \$100,000 equivalent; (b) consulting services under contracts below \$100,000 equivalent, in the case of consulting firms and \$50,000 equivalent, in the case of individual consultants; (c) training expenditures not subject to contract; and (d) operating expenses, under such terms and conditions as the Association shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the Grant 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 Recipient (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Grant Account, the Recipient shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Recipient may open and maintain in Dollars a special deposit account in a commercial 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 Grant Account of amounts to be deposited into the Special Account shall be made as follows:

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

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

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the 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 Part B.2 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 Part A.5 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 Recipient directly from the Grant Account; or

(c) if the Recipient shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) and (f) (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 Part B.2 of this Schedule if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant 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 Recipient 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 Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Grant Agreement.

**Annex A
to
SCHEDULE 1**

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

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$2,100,000, to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 2 (a) of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,050,000, until the aggregate amount of withdrawals from the Grant 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 2,120,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.

(b) For replenishment of the Special Account, the Recipient shall furnish to the 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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of 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 Grant 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 Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Association shall specify by notice to the Recipient. 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 Grant 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 Grant Account under one or more of the Eligible Categories.

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the protection and sustainable management of critical biodiversity resources at the field level, mainstream conservation into macroeconomic management and sector programs, and facilitate the establishment of sustainable financial mechanisms for the environment, thus contributing to the improvement of the quality of life of the population.

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

Part A: Forest Ecosystem Management

1. *Governance*: Provision of technical advisory services and training, and acquisition of equipment, for the formulation and implementation of forest zoning and management plans, and forest control activities, including strengthening of the concession rights allocation framework and fee collection system, strengthening of institutional arrangements for regulatory enforcement through the establishment of an integrated information and communication system for improved forest control, and reinforcement of the watchdog functions of OSF.
2. *Forest conservation*: Provision of technical advisory services, carrying out of small works, and acquisition of equipment, for the creation and management of forest conservation sites outside the network of protected areas, along with the introduction of economic standards, and other economic and regulatory tools, including the establishment of new financial instruments to uncover and capture the economic benefits of conservation.
3. *Forest management transfer*: Provision of technical advisory services and acquisition of equipment, to facilitate the transfer of forestry management rights to local communities and assist in the development of niche markets for biodiversity products, thus enabling communities to improve the revenue-generating potential of forest management transfers.
4. *Reforestation*: Provision of technical advisory services and training, and acquisition of equipment and materials, for the implementation of reforestation

activities, including establishment of land reserves for reforestation and development of opportunities for carbon sequestration activities.

5. *Household energy*: Provision of technical advisory services and training, and acquisition of equipment, to facilitate the implementation of a program of household energy activities aimed at achieving a sustainable woodfuel supply, including: (a) an improvement in the supply of charcoal, through the promotion of sustainable forest management practices and the introduction of improved carbonization techniques; (b) a reduction in demand for woodfuels through more widespread use of efficient cooking stoves; and (c) promotion of substitution fuels to reduce the demand for charcoal .

Part B: Protected Area System Management

1. *Community participation*. Implementation of a program of activities designed to facilitate the participation of local communities in the management of PAs and reduce pressures around PAs, including strengthening and expanding of the mandate of CROs, creation of village-based associations, strengthening of the capacity of such CROs and village-based associations to participate in the management of protected areas, and development of partnerships with NGOs.

2. *Expansion and realignment of PA system*. Implementation of a 5-year action plan for the expansion and realignment of the existing PA system to ensure adequate representation of ecosystems thereunder, including integration of conservation management planning objectives in PAs and support zones, through identification and creation of new PAs, reclassification of some PAs, and reconfiguration of the boundaries of other PAs, where warranted, to reflect current end-uses and ensure ecological integrity.

3. *Park Management*: Implementation of a program to improve conservation management of the PA system, including: (a) ecological monitoring activities and application of measures for the conservation of terrestrial and marine ecosystems; (b) surveillance and control, including fire control, activities; (c) construction of conservation infrastructure, including control barriers, fire breaks, watch towers, boundary markings, and signaling, information and prohibition notices; and (d) carrying out of applied biodiversity-related research.

4. *Sustainable use of PA system*: Implementation of a program to promote eco-tourism and overcome barriers to its development, including construction or improvement of critical visitor infrastructure, provision of recreational activities,

revision of park revenue fees, strengthening of guide services, and development of partnerships with the private sector to promote the development of eco-tourism.

5. *FPAB*: Establishment of a sustainable financial mechanism for biodiversity conservation, through the creation of a specially-designed Foundation for Protected Areas and Biodiversity (FPAB) to receive and manage funds to be used to contribute to the financing of the cost of management of the PA network and biodiversity conservation.

Part C: Environmental Mainstreaming

1. *Information, Education and Communications*. Implementation of a program of environmental information, education and communications, including expansion of the existing environmental information system to the regional level and establishment of capacity in ONE to analyze and process the spatial and temporal dimensions of environmental data, preparation of environmental education materials, and production of environmental information packages and training materials.

2. *Environmental legislation, policy-making and regulations*. Strengthening of DGE's capacity for environmental legislation, policy-making and regulations, and management of complaints, including carrying out of strategic environmental assessments (SEAs) to verify the coherence of sector legislation with the environmental legal framework, establishment of a unit of DGE to carry-out upstream environmental analysis of proposed legislation and policy measures, and capacity building and institutional strengthening activities for the assessment of the potential for carbon finance and other sustainable financing mechanisms for the environment.

3. *MECIE legislation*. Implementation of a program of measures to improve the application of MECIE legislation, including measures designed to increase the speed of the EIA process and reduce costs, while ensuring minimum acceptable quality standards, and establishment of a one-stop-shop in ONE for evaluation of EIAs and issuance of environmental permits.

4. *Environmental management and coordination*. Implementation of a program of environmental management and coordination, including establishment of a financial management system to support budget support programs, establishment of a monitoring and evaluation system to track the results and impacts of the Program, and implementation of institutional reforms both to strengthen the capacity of MinEnvEF and to reinforce coordination with other public sector programs and donors.

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The Project is expected to be completed by June 30, 2009.

SCHEDULE 3

Procurement

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent per contract, and works, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines; provided, however that: (i) all bids would be submitted in one envelope to be opened publicly; (ii) point systems would not be used for bid evaluation; (iii) the award of contracts would be announced to all bidders; (iv) any bidder would be given adequate response time (at least four weeks) for preparation and

submission of bids; (v) bid evaluation and bidder qualification criteria would be clearly specified in bidding/pre-qualification documents and will not be applied arbitrarily; (vi) eligible firms would not be precluded from participation; (vii) no preference margin is granted to domestic contractors and suppliers; (viii) contracts would be awarded to the lowest evaluated bidder in accordance with predetermined and transparent methods; (ix) bid evaluation reports would clearly state the reasons to reject any non-responsive bid; and (x) prior to issuing the first call for bids, draft standard bidding documents shall have been prepared and submitted to the Association, and found acceptable.

2. National/International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of national or international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Force Account

Works which are scattered or in remote locations, or for which quantities cannot be identified in advance, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.8 of the Guidelines.

4. Procurement from UN Agencies

Vehicles, motorcycles and other specialized equipment may be procured from Inter-Agency Procurement Services Office (IAPSO) or United Nations Children's Fund (UNICEF) in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) 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

With respect to each contract for goods and works estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of this Section.

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision 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 under the Project, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. 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.

2. Single Source Selection

Services estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded 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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, individual consultants to be selected on a sole source basis or for assignments deemed critical by the Association, or the higher level staff of PISU, the report on the comparison of the qualifications and experience, or the qualifications and experience, of candidates, as the case may be, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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. The Recipient shall:

establish and maintain:

- (i) an inter-ministerial committee for rural development and environment, whose mandate, terms of reference and composition shall be acceptable to the Association, to monitor the progress of the Program, guarantee its smooth implementation, and ensure consistency between rural development and environment;
- (ii) a joint committee, whose mandate, terms of reference and composition shall be acceptable to the Association, and consisting of the Recipient's and donor representatives, to provide a joint forum to facilitate monitoring of the progress of the Program, exercise of supervisory functions and exchange of views on the progress of the Program; and
- (iii) a Project Implementation Support Unit (PISU) whose mandate, terms of reference and composition shall be acceptable to the Association, to be responsible for overall coordination of the execution of the Project, including management of procurement and disbursement activities, consolidation of annual work programs and budgets, preparation and production of annual progress reports and financial statements, and the proper application of the monitoring and evaluation system, of the Project; and

(b) ensure that:

- (i) PISU shall be headed by a coordinator, who shall be assisted by procurement, financial management, and monitoring and evaluation specialists, an internal auditor and other suitably qualified and experienced staff in adequate numbers; and

- (ii) the positions of coordinator and other higher-level staff of PISU shall be kept filled at all times by persons having qualifications and experience acceptable to the Association.

2. Pending the establishment of ANGEF, DGEF shall continue to assume responsibility for the operational aspects of conservation and sustainable management of forest resources and, as such, be responsible for the implementation of Part A of the Project.

3. The Recipient shall:

(a) prepare and transmit to the Association for comments, and thereafter adopt in form and substance acceptable to the Association, a Project Implementation Plan, giving details of all operational guidelines and procedures as shall have been agreed with the Association for the implementation, monitoring and supervision of the Project, including:

- (i) performance indicators, monitoring and evaluation guidelines, and environmental assessment methodology;
- (ii) administrative, accounting and financial procedures;
- (iii) procurement and disbursement guidelines;
- (iv) criteria for the selection of project intervention areas;
- (v) details of the EA/EMP and PF, and, as they become available, other social and environmental instruments governing the Project; and
- (vi) guidelines for the compensation of PAPs as set forth in the PF, and, as they become available, details of individual PFAPs; and

(b) carry out the Project in accordance with procedures set forth in the Project Implementation Plan, and except as the Association shall otherwise agree, shall not amend or waive any provision thereof, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

4. Without limitation upon the provisions of Section 4.02 of the Agreement, the Recipient shall:

(a) not later than September 30, 2004, and thereafter not later than September 30 of each year, submit to the Association for review and comments a proposed annual work program and budget, giving details of its proposed work program activities and budget estimates, for the forthcoming Fiscal Year;

(b) proceed thereafter to implement the annual work program and budget, taking into account any comments thereon as the Association may have made; and

(c) not later than 30 days after the end of each quarter, beginning not later than 30 days after the first quarter after the Effective Date, submit to the Association a quarterly report on the progress of the Project, including compliance with social and environment safeguard measures under the Project, giving details of measures taken in furtherance of the EA/EMP, PF and IPDP, if any, conditions, if any, which interfere or threaten to interfere with the smooth implementation of the EA/EMP, PF or IPDP, if any, and remedial measures taken or required to be taken to address such conditions.

5. The Recipient 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 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 September 30, 2006, 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 November 30, 2006, 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.

6. For the purposes of Part A of the Project, the Recipient shall, pending establishment of a transparent and competitive allocation system based on licensing agreements, acceptable to the Association, maintain: (a) a ban on the export of non-processed precious wood (*bois d'ébène*, *bois de rose* and *pallissandre*); and (b) a moratorium on the allocation of new permits for the harvesting of *bois d'ébène*;

7. For the purposes of Part B of the Project, the Recipient shall prepare and adopt, prior to the legal establishment of any protected area for the Mikea forest, and thereafter implement, an indigenous peoples development plan (IPDP), acceptable to the Association, including:

(a) a detailed analysis of the potential social, economic and cultural impacts of any proposed development of the Mikea forest;

(b) mechanisms to guarantee the full participation of the local population of the Mikea forest in the design and implementation of any development activity in the area; and

(c) provisions to ensure that the local population not only do not suffer adverse effects from any such development activity but also derive appropriate culturally-compatible social and economic benefits therefrom.

8. In the case of any activity of the Project involving the loss of livelihood, business, trade or other occupation, or having an adverse impact on land, property or other assets or structures, the Recipient shall prepare, adopt and thereafter proceed to implement, a Process Framework Action Plan acceptable to the Association, giving details of measures consistent with the PF, and designed to facilitate the compensation of PAPs, including the magnitude of the impact, proposed compensation arrangements, budget and cost estimates, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, the PFAP.

9. (a) For purposes of Part B.5 of the Project, the Recipient shall establish a Foundation for Protected Areas and Biodiversity (FPAB) to receive and manage contributions from the Recipient and other donors to be used to finance biodiversity conservation under terms and conditions which shall be acceptable to the Association, including, but not limited to, the following:

- (i) clear and transparent criteria for the review and approval of biodiversity conservation proposals;
- (ii) clear and transparent rules governing the management and oversight of FPAB, and the role of local stakeholders;
- (iii) establishment of a separate account to receive and manage contributions to an endowment fund to be used to contribute to the financing of the cost of management of the PA network and biodiversity conservation;
- (iv) clear and transparent rules to ensure that funds are applied for the purposes for which they are intended and in accordance with its operational manual;
- (vi) provision for independent technical, financial and organizational audits to monitor and report on the operations of the FPAB; and
- (viii) clear and transparent rules governing the disposal of assets of the FPAB in the event of a merger or dissolution.

(b) For the purposes of this paragraph, “endowment fund” means a fund consisting of both capital contributions and income generated by the capital, of which only the income is available to finance eligible expenses.

SCHEDULE 5

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04 (a), 3.04 (b), 3.05, 6.05, Article VII, are deleted in their entirety.

2. Wherever used in the General Conditions, the following terms are modified to read as follows:

(a) The term “Borrower” is modified to read “Recipient”.

(b) The term “Credit” is modified to read “Grant”.

(c) The term “Credit” is modified to read “Grant”; except that where used in Sections 6.02 (a) (ii) and 6.02 (c) (i), as modified below, the term “credit” shall continue to read “credit”.

(d) The term “Credit Account” is modified to read “Grant Account”.

(e) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.

3. Article IV is modified as follows:

(a) Section 4.02 (a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02 Currencies in which Commitment Charges are Payable

(a). The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02 (c) and (e) of the General Conditions the words “principal and service charges” are modified to read “commitment charge”.

(c) Section 4.03 and its heading are modified to read as follows:

“Section 4.03. Amount of the Grant

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

4. Section 6.02 is modified as follows:

(a) The phrase “any other development credit agreement” in Section 6.02 (a) (ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.

(b) The phrase “any development credit agreement” in Section 6.02 (c) (i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.

5. The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.

6. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. Termination of Development Grant Agreement.

The obligations of the Borrower under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”