Contract between the Norwegian Ministry of Foreign Affairs (MFA) and CARE International in Tanzania regarding HIM4 - Piloting REDD in Zanzibar through Community Forest Management

CARE International in Tanzania has in letter dated 17 February 2010 requested MFA for financial support for piloting REDD in Zanzibar through community Forest Management. MFA has decided to comply with the request, and the two parties agree as follows:

1. Scope and objectives

1.1 This Contract sets forth the terms and procedures for MFA’s assistance to the project as outlined in the Agreed Project Summary in Annex I (the Project) and further described in the Project Document “HIMA- Piloting REDD in Zanzibar through Community Forest management”, dated 17 February 2010.

The Norwegian Embassy in Dar es Salaam (the Embassy) is, as a part of MFA, competent to act on behalf of MFA. All communication to MFA in regard to the Contract shall be directed to the Embassy.

All communication to CARE International in Tanzania relating to the project will be directed to the Country Director of CARE International in Tanzania.

1.2 The Goal of the Project is reduce greenhouse gas emissions from deforestation and degradation in Zanzibar, and generate carbon income which will provide direct and equitable incentives to communities to conserve forests sustainably.

The Purpose of the Project is to promote a pro-poor gender-equitable approach to community forest management in Zanzibar, including piloting of carbon financing for reduced emissions from deforestation and degradation (REDD), which provides forest-dependent communities with secure property rights, equitable rewards for providing ecosystem services and other livelihood benefits, and which informs the priorities of Zanzibar in national REDD strategy.

2. Contributions of MFA

2.1 MFA shall, subject to Parliamentary appropriations, make available a financial grant not exceeding NOK 38775 000 (Norwegian Kroner thirty eight million and seven hundred and seventy five thousand) to be used exclusively to finance the Project during the planned period 1st April 2010 to 31st March 2014.

2.2 In order to ensure high quality accounting of the Project, MFA shall from time to time on MFA’s initiative make available to CARE International in Tanzania and any partner subcontracted by them external financial management advisory services, including technical advice and relevant training. The cost of such services will be covered by MFA over and above the Grant.

2.3 Upon completion of the Project, any unutilized funds, including accrued interests, shall be returned to MFA, unless the Parties have agreed in writing upon the utilization of such funds.

3. Obligations of CARE International in Tanzania

CARE International in Tanzania shall:

3.1 Implement the Project on the basis of this Contract, approved budgets and work plans as well as the Project Document. Any revisions to the total budget for each output beyond what is approved in the Annual meetings referred to in Article 7 have to be agreed upon in advance in writing.
3.2 effect purchases for the Project in accordance with established organizational procedures and in such a manner as to obtain the most favourable terms with regard to price, quality, delivery date and maintenance facilities, and to keep capital items insured, and be responsible for entering into sub-contracts with partner organisations for the successful implementation of the Project.

3.3 meet all additional expenses that may be necessary for the completion of the Project, and make available necessary administrative, financial and logistical support staff as and when required,

3.4 ensure that Project funds, which shall include any accrued interests, are properly accounted for in accordance with established organizational procedures, also by any subcontracted partners.

3.5 keep MFA informed about plans for major organisational changes as well as keep MFA informed as to the name of the auditor of the Project,

3.6 provide copies to MFA of reports submitted to authorities pertinent to the Project,

3.7 promptly inform MFA in writing of any condition which interferes or threatens to interfere with the successful implementation of the Project,

3.8 guarantee that funds made available in accordance with this Contract are not used in violation of relevant UN conventions and resolutions of the UN Security Council,

3.9 ensure that representatives of Norway are permitted to visit any part of the Project for purposes related to the Contract and examine any relevant records, goods and documents,

3.10 cooperate fully with external financial management advisor(s) made available by MFA pursuant to Section 2.2 above.

3.11 ensure that subcontracted partners are obliged, through relevant clauses in their contracts, to supply annual certified financial statements to CARE International in Tanzania and to cooperate fully with the external financial management advisor(s) (mentioned in Section 3.10).

3.12 enter into dialogue with the Embassy if additional REDD-related funding or responsibilities are accepted from other development partners or collaborators.

4. Disbursements

4.1 Disbursements from the Grant shall take place upon semi-annual written requests from CARE International in Tanzania based on the financial needs of the Project and satisfactory delivery of the project performance milestones, and, with exception of the first request, on approved work plans and budgets.

The first disbursement will be made after receiving in writing the organizational procedures for financial accounting, audits, recruiting, tendering, procurement, allowance payment modalities and other standard procedures and upon signing of this Contract and approval by MFA of a disbursement request from CARE International in Tanzania.

Along with the disbursement requests, CARE International in Tanzania shall submit statements of cash and bank balances from the Project's accounting records.

4.2 When determining the amount to request, CARE International in Tanzania shall take into account unspent disbursed amounts and income from all sources as well as any accrued interests.
4.3 Funds will be transferred upon MFA’s approval of the request to a bank account in the name of CARE International in Tanzania, and will be available for the Project immediately. CARE International in Tanzania shall immediately, in writing, acknowledge receipt of the funds. The date of receipt shall be stated as well as the exchange rate applied.

5. Reporting
5.1 CARE International in Tanzania shall submit the following reports/documentation to MFA:

- annual financial statements (1 April to 31 March) for the Project showing receipts/income and expenditures for the previous year as well as the cash/bank/financial position of the Project, no later than four weeks before the annual meeting referred to in section 7.1,
- a budget and work plan on an annual basis (1 April to 31 March) for the coming year with an updated revolving plan for the entire Project period, no later than four weeks before the annual meeting referred to in section 7.1,
- semi-annual progress reports and statement of accounts in formats to be agreed upon, covering the period April to September and October to March within April and October respectively each year, with the latter no later than four weeks before the annual meeting referred to in section 7.1,
- the audited annual financial statements (1 July to 31 June) of the entire organization within February the following year,
- a final report for the whole Project period, as well as audited financial statements from the end of the previous audit until completion of the Project within August 2014.

5.2 The semi-annual progress reports shall be prepared in accordance with the format in Annex II to this Agreement:

5.3 The final report shall include the following information:

- The topics listed in Annex II.
- an assessment of the effectiveness of the Project, i.e. the extent to which the purpose has been achieved
- an assessment of impact (if possible), i.e. the changes and effects positive or negative, planned and unforeseen of the Project seen in relation to target groups and others who are affected
- an assessment of the sustainability of the Project, i.e. an assessment of the extent to which the positive effects of the Project will continue after external assistance has concluded
- a summary of main “lessons learned”.

5.4 MFA shall respond in writing within four weeks after the receipt of the reports and documentation.

6. Audit
6.1 The annual financial statements of the Project shall be audited by an independent and recognized professional accountant (auditor) acceptable to MFA. The audit shall at least cover the issues mentioned in the Terms of Reference in Annex III to the Contract. CARE International in Tanzania shall submit to MFA the audit report, any management letter and any other report from the auditor significant to the implementation of the Project within September the following year. CARE International in Tanzania shall comment upon the auditor’s findings, and MFA shall respond within four weeks upon receipt of the report.

6.2 MFA may appoint an independent auditor to undertake audit if deemed necessary. Audits may also be carried out by the Norwegian Auditor General as and when deemed necessary.

7. Meetings and reviews
7.1 Formal meetings shall be held no later than May every year (with the exception of a formal meeting held before the end of October 2010) unless otherwise agreed in writing. The meetings shall be called and chaired by CARE International in Tanzania, with a member of the Task Force invited as an observer for the first meeting and optionally thereafter. The purpose of these
meetings is to discuss the progress of the Project, including results and fulfillment of agreed obligations and performance-based milestones, to discuss and, if feasible, approve documentation submitted according to Article 5, as well as to discuss issues of special concern for the implementation of the Project, e.g. risk management. Central elements of the discussion and all decisions from the consultations shall be recorded in agreed minutes.

The minutes shall be drafted by CARE International in Tanzania and be submitted to MFA for comments within two weeks. MFA shall respond within two weeks.

7.2 A mid-term and end-term review shall be carried out tentatively by March 2012 and April 2014 respectively. Reviews will focus on issues of sustainability, complementarity, participation, timeliness, integrity, innovation, credibility and efficiency. An assessment of the Project's impact may also be included in the review.

The cost of the review shall be covered by the Grant and administered by MFA.

7.3 MFA reserves the right to carry out independent reviews or evaluations of the Project as and when MFA deems it necessary. The cost for such reviews will be covered by funds over and above the Grant.

8. Corruption
8.1 The Parties declare their commitment to counteract corrupt practices in the execution of the Contract. Further, the Parties commit themselves not to accept, either directly or indirectly, as an inducement or reward in relation to the execution of the Contract, any kind of offer, gift, payments or benefits, which would or could be construed as illegal or corrupt practice. The Parties shall immediately inform each other of any indication of corruption or misuse of resources related to the Project, and undertake to take rapid legal action to initiate investigations of and prosecution against, in accordance with applicable law, any person suspected of corruption or misuse of resources related to the Project.

9. Breach of contract
9.1 If CARE International in Tanzania fails to fulfill its obligations under this Contract, or if any major organisational changes are found to be contradictory to the objectives of the Project, MFA may, upon consultations with CARE International in Tanzania cancel this Contract and claim repayment or withdraw the total or a portion of the funds provided to the Project.

9.2 MFA may cancel this Contract or portion of this Contract with immediate effect if it determines that corrupt or fraudulent practices were engaged in by representatives of CARE International in Tanzania or of a beneficiary of the aid funds without CARE International in Tanzania having taken timely and appropriate action satisfactory to MFA to remedy the situation.

10. Entry into force – Termination – Disputes
10.1 This Contract shall enter into force on the date of its signature, and shall remain in force until both Parties have fulfilled all obligations arising from it. Whether these obligations shall be regarded as fulfilled, shall be determined in consultation by the Parties.

10.2 Notwithstanding the previous clause, each Party may terminate the Contract upon three months' written notice.
10.3 In case of termination of the Contract CARE International in Tanzania shall exert its best efforts to bring the Project to an end in a rapid, orderly and economical manner as to the use of the funds from MFA. CARE International in Tanzania shall not commit the Project financially from the date of the receipt of the notice of termination. Any unspent funds not committed by the date of the receipt of the notice of termination, shall be returned to MFA without delay.

10.4 If any dispute arises relating to the implementation or interpretation of this Contract, the Parties shall consult with a view to reaching a solution. Any disputes that cannot be solved amicably shall be referred to the competent Tanzanian court and settled in accordance with Tanzanian law. The court venue shall be Dar es Salaam.

This Contract is drawn in duplicate with one copy for CARE International in Tanzania and one for MFA.

Dar es Salaam, 29/3/2010
For the Norwegian Ministry of 
Foreign Affairs

Name and Title

Witness

Name and Title

Dar es Salaam, .................
For CARE International in 
Tanzania

Name and Title

Witness

Name and Title

Witness

Name and Title

THABIT MABBO
NRE SECTOR COORDINATOR

Annex I: Agreed project summary
Annex II: Format for Progress reports
Annex III: Terms of reference for Audit
## ANNEX 1

### HIMA

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Hifadhi ya Mislitu ya Asili Conservation of natural forest (HIMA) - Piloting REDD in Zanzibar through Community Forest Management.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing institution</td>
<td>CARE International in Tanzania</td>
</tr>
<tr>
<td>Partner institutions</td>
<td>DCCFF, DoE; 3 umbrella organizations of VCCs (JECA, SEDCA, and NGIENARECO); CARE International’s Poverty, Environment and Climate Change Network; CARE Norway; Tanzania Gender Network Program; Terra Global; Sokoin University of Agriculture; and Institute of Resource Assessment, University of Dar es Salaam</td>
</tr>
</tbody>
</table>

## 2. Description of the project (2.1-2.4)

<table>
<thead>
<tr>
<th>Intervention Logic</th>
<th>Objectively verifiable indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal:</strong></td>
<td>- 375,250 tons reduction in CO₂ emissions from degradation and deforestation through improved land use practices covering 25,000 ha of forests in Zanzibar</td>
</tr>
<tr>
<td><strong>Purpose:</strong></td>
<td>- 29 forest dependent communities with increased ability to manage their forests sustainably and with enhanced livelihoods through carbon financing</td>
</tr>
<tr>
<td><strong>Inputs/Activities:</strong></td>
<td>- At least US$318,370 paid to forest dependent communities through carbon financing benefiting at least 99,000 people</td>
</tr>
<tr>
<td><strong>Purpose:</strong></td>
<td>- REDD priorities for Zanzibar identified and feeding into the formulation of national REDD strategy</td>
</tr>
<tr>
<td><strong>Inputs/Activities:</strong></td>
<td>- Mechanism developed and implemented for linking pro-poor gender equitable community forest management with carbon financing</td>
</tr>
<tr>
<td><strong>Purpose:</strong></td>
<td>- Village communities with secured property rights</td>
</tr>
<tr>
<td><strong>Inputs/Activities:</strong></td>
<td>- Men and women in 29 forest dependent communities reporting change in financial and other ecosystem benefits</td>
</tr>
<tr>
<td><strong>Purpose:</strong></td>
<td>- Men and women in 29 forest dependent communities reporting increased resilience to climatic variability</td>
</tr>
<tr>
<td><strong>Inputs/Activities:</strong></td>
<td>- 12 new COFAs developed covering 10,650 ha of forest area and 17 existing COFAs covering 17,000 ha of forest area reviewed and improved through the development and application of effective and equitable COF strategies.</td>
</tr>
</tbody>
</table>

### Output 1:

- 12 new COFAs developed covering 10,650 ha of forest area and 17 existing COFAs covering 17,000 ha of forest area reviewed and improved through the development and application of effective and equitable COF strategies.

**Indicators:**
- 12 new pro-poor and gender sensitive COFAs developed and legally recognized covering at least 5,650 ha of upland forest and 5,000 ha of mangrove forests.
- 17 existing COFAs reviewed to make it pro-poor and gender-sensitive covering 17,000 ha of upland forests.
- REDD mechanism designed and piloted in 29 sites.
<table>
<thead>
<tr>
<th>Intervention Logic</th>
<th>Objectively verifiable indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Output 2:</strong> Strengthen DCCFF, DoE and other relevant government institutions and CSO/local NGO’s REDD and climate change capacities</td>
<td>- Men and women in at least 10% participating households report financial benefits from REDD mechanism.</td>
</tr>
</tbody>
</table>
| **Inputs/Activities** | 2.1 Undertake gender differentiated institutional capacity assessment of DCCFF, DoE and selected local government institutions, including CSOs/NGOs to identify strengths, weaknesses and capacity gaps related to pro-poor gender equitable COFM and REDD and design training plan accordingly.  
2.2 Support and facilitate selected DCCFF and DoE staff (men and women) to attain relevant academic training courses related to COFM and REDD.  
2.3 Conduct training courses for men and women in DCCFF, DoE and selected local government institutions, including CSOs/NGOs staff to build their core competencies around COFM and REDD.  
2.4 Strengthen capacity of DCCFF to develop and manage information and link to the national REDD Website and support the channeling of REDD information into the DCCFF managed website.  
2.5 Support establishment of ‘REDD Cell’ within DCCFF  
2.6 Support exchange visits of Zanzibar partners to mainland sites and from mainland to Zanzibar sites  
2.7 Plan for and conduct REDD and climate change awareness/orientation workshops for senior political leaders in Zanzibar.  
2.8 Strengthen capacity of community based institutions to manage carbon derived financial transactions  
2.9 Provide sub-grants to local NGOs and CBOs to scale up COFM and REDD activities in Zanzibar.  
2.10 Strengthen capacity of DCCFF and DoE to facilitate establishment of forums for men and women in the communities and CSOs/NGOs to interface with DCCFF and DoE policy makers to discuss key issues/concerns, problems and potential solutions.  |
| **Indicators** | - Increased capacity of DCCFF, DoE and other relevant government institutions and staff’s to implement and scale-up pro-poor gender sensitive COFM and REDD in Zanzibar through selected academic and non-academic training courses.  
- Increased awareness and capacity of forest adjacent men and women and selected CSOs/NGOs staff in pro-poor gender sensitive COFM and REDD methodology and approaches.  
- "REDD Cell" within DCCFF established and functioning  
- Number of exchange visits of Zanzibar partners to mainland sites and from mainland to Zanzibar sites.  
- Number of local NGOs and CBOs receiving and effectively utilizing sub-grants  
- Number of policy dialogue/debates held between men and women in the communities and CSOs/NGOs with DCCFF and DoE policy makers. |
| **Output 3:** VCS and CCBA certification secured and marketing arrangements developed based on national aggregation that maximizes benefits to men and women in the communities whilst ensuring environmental integrity. | **Inputs/Activities**  
3.1 Plan for, and conduct baseline and biomass inventory to establish forest carbon emission baseline, including impact of climate change and its implications for Zanzibar.  
3.2 Develop carbon feasibility assessment for target project areas to determine eligibility under VCS and CCBA and provide input to the final project design.  
3.3 Develop/adapt methodology under the VCS, to support submission of the project.  
3.4 Collect in-country data and perform analysis for development and validation of the Project Documents (PDs) under the VCS and CCBA.  
3.5 Identify and establish an appropriate aggregation entity and assist in development of its management experience to support project oversight and sales of carbon credits.  
3.6 Develop monitoring system/procedures to manage monitoring requirements under VCS, CCBA and for accessing over-all project implementation effectiveness. |
<table>
<thead>
<tr>
<th>Intervention Logic</th>
<th>Objectively verifiable indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.7 Manage VCS and CCB validation and marketing of credits to international buyers on behalf of the aggregation entity (seller).</td>
</tr>
<tr>
<td></td>
<td>3.8 Pilot financing phase in advance of external VER payment from buyers by channeling project funds through a transfer mechanism in order to test the system and to generate strong community buy-in.</td>
</tr>
</tbody>
</table>

**Indicators**
- Number of COFM groups fulfilling VCS and CCB certification standards
- Mechanisms to monitor equitable sharing of benefits established
- System for monitoring requirements for the VCS and CCB standards established for assessing overall HIMA REDD implementation effectiveness
- Aggregation entity established and operating effectively and efficiently as a legal business entity.
- Carbon buyers identified and engaged to purchase carbon credits to be generated at the end of project.

**Output 4:**
Replicable, equitable and cost effective measures to assess and control leakage designed and implemented.

**Inputs/Activities**
4.1 Conduct an assessment of forest resource use by women and men in target communities, including leakage risks assessment.
4.2 Support men and women in communities to develop a leakage avoidance/reduction strategy and community-based monitoring to assess effectiveness of this strategy.
4.3 Support establishment of woodlots, on farm tree planting, and agroforestry to reduce leakage.
4.4 Identify and support sustainable gender sensitive income generating activities/micr enterprises that increase revenue to local forest users (women and men) and have the potential to reduce leakage.
4.5 Conduct a baseline and endline survey for LPG use and implement pilot project for future scaling up

**Indicators**
- Anti-leakage strategies developed and implemented by men and women in at least 29 communities involved in the sales of VER carbon credits.
- Men and women in at least 10% participating households actively engaged in establishing woodlots and/or agroforestry practices.
- Men and women in at least 10% participating households engaged in sustainable forest-based income generating activities.
- 20% of the households in urban areas within the pilot site adopts LPG switch against wood-fuel use.

**Output 5:**
Monitoring, evaluation, documentation and advocacy processes supported, with particular emphasis on social equity, and experience/lessons disseminated at community level and to a wider audience.

**Inputs/Activities**
5.1 Design and implement a gender/well being sensitive project M&E system (with gender/well being disaggregated data) to assess progress against expected results and objectives of the project.
5.2 Design and implement gender analysis and social impact assessment to assess impacts of COFM and REDD, particularly on women and well-being group.
5.3 Conduct a carbon value chain analysis to identify value accruing to different actors/stakeholders and opportunities to increase benefits to men and women in the communities.
5.4 Produce publications (articles, guidelines, papers) to document and disseminate experiences and lessons learnt within Zanzibar and to a wider international audience.
5.5 Organize public awareness raising activities through television, radio, newsletters, posters, etc.
5.6 Undertake targeted advocacy work on the development of Zanzibar REDD priorities for integration with the emerging framework in Tanzania.
5.7 Plan for, and conduct biannual Project Advisory Committee and participatory quarterly and annual program review and planning meeting involving partners and key stakeholders.
5.8 Plan for, and conduct case studies to document the way Zanzibar culture contribute to the success or failure of the project.
5.9 Plan for, and conduct project annual audit, mid and end term project evaluations.

**Indicators**
Gender differentiated poverty and forest management impacts of carbon financing.
<table>
<thead>
<tr>
<th>Key Project milestone</th>
<th>Detailed description</th>
<th>Means of verification</th>
</tr>
</thead>
</table>
| COFM/REDD site selection and characterization process completed | A report that describes in detail the rationale for selecting the project site(s) including descriptions of the criteria used and the key information of the selected site(s) in terms of land use, forest type, biodiversity values, carbon values, NRM governance, conservation status, as well as the description of the communities and their socio-economic status, cultural norms/values, and drivers of deforestation will be produced and made available online. | - Site selection report  
- Site characterization report. |
| Project monitoring, evaluation and communication plan developed | Within the first six months of project inception, the gender sensitive monitoring, evaluation and communication plan will be developed that will define what will be measured, how indicators will be measured, how frequently, by whom and when. The plan will also outline how the lessons learned (e.g., success, failure and challenges) during project implementation will be communicated with the stakeholders and used to improve project planning in the subsequent quarter/year. | Monitoring and evaluation plan |
| Community level leakage control strategies developed for selected villages | In each site, leakage risks assessment will be conducted leading to the development of community leakage avoidance strategies that will directly address the divers of deforestation. The strategy will form the basis for the project to invest on leakage control activities. | Community leakage avoidance strategy document |
| Appropriate CO₂ aggregation entity established | The inception phase of the project will be used to work out issues around the aggregation entity, e.g. the nature and quality of the organization, the mechanisms by which it functions, the way it will be connected to the National Trust Fund and the local VSL schemes, the transactional risks arising from REDD contracts, and the logistics of equitably sharing out the benefits between the various stakeholders, especially women and well-being groups. The aggregation entity is essential, so that sites which are engaged in COFM can transfer carbon rights and sell them as a single unit rather than as individual communities. | Aggregation entity report/document |
| Social impact monitoring system | In order to ensure that women get benefits in terms of REDD revenues resulting from efforts they will invest in the management of the forests and in order to avoid that REDD | Social impact monitoring document |
| developed carbon financing mechanisms do not exacerbate existing gender inequalities and thus increase women's hardship, the project will conduct a gender analysis and social impact assessment (SIA) at the start of the project that explicitly looks at impacts of REDD intervention on women and setting up a social impact monitoring system that is capable of monitoring impacts by gender and by well-being group. |
|---|---|
| Energy switch from fuelwood / charcoal to LPG piloted in 7,000 households | Within the first two years of project implementation, at least 20% of the urban and peri-urban household using firewood/charcoal will have switched to LPG, as a strategy to addressing the main drivers of deforestation in Zanzibar. This will be validated by the LPG switch end-line survey, which will also form the basis for designing scaling up energy switch/LPG program. |
| REDD payments made to communities in advance of external VER payments | The project will pilot financing phase in advance of external VER payment from buyers by channeling project funds through a transfer mechanism in order to test the system and to generate strong community buy-in. This pilot financing phase will also provide an opportunity to experiment a community level transfer mechanism upfront where communities will be able to access and disburse funding through the system, as well as identify any weakness that can be addressed during the pilot phase. This scheme will test different ways of distributing communal benefits, for example, payments to individual households, VCCs, etc. The scheme will also facilitate discussion between participating communities and local government bodies to determine how funds will be allocated and used for improved forest management and for wider community development. |
| Project assessed for VCS and CCB validation | Once the PD methodology and PD document have been developed outlining measures that will be taken to reduce emissions, an independent assessors will be engaged to determine the project meets the VCS and CCB standards. The assessment report will be produced and shared widely. VSC and CCB validation/review report. |
| Lessons learned from mid-term review incorporated into Year 3 and 4 plans | An independent mid-term project evaluation will be conducted half way through the project. The mid term evaluation will assess whether the strategies, approaches and interventions used or promoted by the project is appropriate in achieving the project goal, objectives and milestones. The key lessons learned from the mid term evaluation will be used to improve project strategies, approaches and interventions. Mid-term review report and year 3 and 4 work plans |
| Modality for result based payments established | Based on initial pilot financing phase, the project will develop a report outlining different options for payment to the communities for actions that reduce emissions. The report will also assess strengths and weaknesses of the different approaches and will make recommendations on the effective, equitable and efficient payment modalities. Payment modalities report |

### 2.6 Major risks

Risks are listed in the project document with probability rating and mitigation measures.
1) Overexploitation of forest resources by the communities. The carbon project has the potential to motivate communities, both within and outside the project area, to accelerate deforestation to compensate for restrictions on forest use (also known as "leakage")

2) Conflict between communities over limited forest resources use could disrupt project progress.

3) Zanzibar is mostly an Islamic society and the level of women's participation in public decision making process is generally low. Therefore, women may not get the fair share of benefits from REDD revenues and this process is likely to exacerbate existing gender inequalities and thus increase women's hardship.

4) Conflicting policies that exist between different line ministries on land tenure in Zanzibar could pose a risk to effective implementation of COFM and REDD

5) Government institutions in Zanzibar are reluctant to open dialogue with civil society stakeholders.

6) Implementation of a REDD project may affect or be affected by the cultural and political setup in the Island. The upcoming general election in 2010 could disrupt project progress.

7) Zanzibar is not a member of mainland National REDD Task Force and given some differences in political system on Union and non-union matters, the REDD and climate change related actions and interventions implemented in the Islands may not be aligned or relevant to addressing climate change under REDD framework.

8) Carbon financing does not reach its intended beneficiaries (also known as "elite capture").

9) Buyers of voluntary REDD carbon credits cannot be identified.

### 3 Overall Budget

<table>
<thead>
<tr>
<th>Expenditure category</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Total</th>
<th>% (of total direct costs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Salaries/benefits</td>
<td>227,730</td>
<td>200,478</td>
<td>218,242</td>
<td>199,901</td>
<td>846,351</td>
<td>17.4</td>
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<tr>
<td>Materials and equipment</td>
<td>288,400</td>
<td></td>
<td>900</td>
<td></td>
<td>289,300</td>
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<tr>
<td>Operation costs</td>
<td>115,707</td>
<td>119,939</td>
<td>127,076</td>
<td>132,640</td>
<td>496,362</td>
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<tr>
<td>Travel costs</td>
<td>57,000</td>
<td>60,120</td>
<td>68,427</td>
<td>66,933</td>
<td>247,480</td>
<td>5.1</td>
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<tr>
<td>Program activity costs</td>
<td>1,124,350</td>
<td>1,077,716</td>
<td>437,188</td>
<td>345,178</td>
<td>2,979,432</td>
<td>61.3</td>
</tr>
<tr>
<td><strong>Total direct costs</strong></td>
<td>1,813,187</td>
<td>1,458,253</td>
<td>841,833</td>
<td>745,652</td>
<td>4,858,926</td>
<td></td>
</tr>
<tr>
<td>Management cost (10% of total direct costs)</td>
<td>181,319</td>
<td>145,825</td>
<td>84,183</td>
<td>74,565</td>
<td>485,893</td>
<td>10</td>
</tr>
<tr>
<td>Contingency (4% of total direct costs)</td>
<td>72,527</td>
<td>58,330</td>
<td>33,673</td>
<td>29,826</td>
<td>194,357</td>
<td></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>2,067,033</td>
<td>1,662,469</td>
<td>959,690</td>
<td>850,044</td>
<td>5,539,175</td>
<td></td>
</tr>
</tbody>
</table>
Annex II Format for progress reports

Project name:
Reporting period:
Completed by:

1. Project performance during reporting period
   a. Technical
      (description of actual outputs compared to planned outputs, as defined in quarterly work plans and project monitoring indicators)
   b. Financial
      (a brief summary of the use of funds compared to budget, explanations of variance, and an outline of any additional funds secured for similar or related activities)

2. Project impacts of project to date
   (a brief assessment of the extent to which the purpose has been achieved according to project monitoring indicators and milestones)
   (final report only: an assessment of impact, i.e. the changes and effects positive or negative, planned and unforeseen of the Project seen in relation to target groups and others who are affected)

3. Adaptive management
   a. Constraints and opportunities during reporting period
      (an explanation of major deviations from the plan)
   b. Future risk and opportunity assessment
      (an assessment of problems and risks (internal or external to the Project) that may affect success, as well as opportunities)
   c. Project response
      (an assessment of the need for adjustments to activity plans and/or inputs and outputs, including actions for risk mitigation)

4. Way forward
   a. Planned activities:
      (an outline of activities planned for next reporting period, arranged by output)
   b. Sustainability (final report only)
      (an assessment of the extent to which the positive effects of the Project will continue after the external assistance has been concluded, and status of vehicles/equipment purchased by Project)
   c. Lessons learned (final report only)
      (a summary of main lessons learned during project lifespan)

Progress reports will be made publicly available.
Annex III Terms of Reference for audit

The auditor shall carry out the audit in accordance with any relevant national legislation as well as with international standards on auditing.

The objective of the audit is to audit 1) the annual financial statements of the Project as defined in Annex I to this Contract as well as 2) compliance with certain contractual obligations. The auditor shall be given a copy of the present Contract, and decides himself whether to submit one or two reports. The audit report(s) shall state the auditor's opinion/findings as to:

- Whether the financial statements and the cash/bank/financial position present fairly, in all material respects, the income and expenditures of the Project in accordance with an acceptable financial reporting framework.
- Whether the audit has uncovered any material weaknesses in relevant internal control(s).
- Whether the funds have been deposited in a separate bank account in the name of the organisation and that accrued interest are reflected in the statement from the bank.
- Whether the audit has uncovered any illegal or corrupt practices.
- Whether receipts/income and expenditures are properly accounted for.
- Whether the financial statements are in agreement with the records and books of accounts maintained by the programme.
- Whether the expenditure incurred by the programme is properly documented and is in line with the budget.
- Whether the internal control system exists and is working efficiently to identify possible fraud or material misstatement.
- Whether the expenditures for each activity as per the activity budget is traceable and report on the variance in line with the budget.
- Whether the auditor has obtained all the information and explanation necessary for the purpose of the audit.

The above list does not preclude the organisation or the auditor from addressing further issues.

The auditor shall also, if the auditor deems it warranted based on findings during the audit, submit a management letter to the organisation upon completion of the audit. The letter should address deficiencies noted in the system of internal control.