

**CONTRACT**

**BETWEEN**

**THE NORWEGIAN MINISTRY OF FOREIGN AFFAIRS (MFA)**

**AND**

**WILDLIFE CONSERVATION SOCIETY OF ZAMBIA (WCS)**

**REGARDING**

**COMMUNITY MARKETS FOR CONSERVATION (COMACO) PHASE II  
“SCALING UP ACROSS LUANGWA VALLEY”**

This Contract is entered into between the Norwegian Ministry of Foreign Affairs (“MFA”) and Wildlife Conservation Society (“WCS”) (each a “Party”, together the “Parties”) regarding support to WCS’ project “COMACO phase II Scaling Up Across the Luangwa Valley” (the “Project”).

Whereas MFA has supported COMACO through contracts dated 9<sup>th</sup> December 2005, and bridge funding for 8<sup>th</sup> April 2008, 27<sup>th</sup> August 2008 and 17<sup>th</sup> October 2008.

Whereas WCS submitted a proposal to MFA for additional funding by letter dated 16 April, 2009 and the MFA has decided to comply with the request;

Now, therefore, the 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 and further described in the Project Document “COMACO Phase II Scaling Up Across the Luangwa Valley”, dated 1 April 2009.

The Norwegian Embassy in Lusaka (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.

**1.2** The Goal of the Project is:

- To realize a healthy Luangwa Valley ecosystem maintained by ecologically safe markets that sustain and integrate social, economic and environmental benefits for resource-poor households in order to increase the resilience of rural people to the effects of climate change and global market perturbations.

The Purposes of the Project are

- To implement a scalable business model that drives households to collectively and responsibly work together as a community to sustainably increase food and income security through improved resource management and farming practices

that promote healthy ecosystem functions and improved conservation of renewable resources across the Luangwa Valley ecosystem.

- To provide a well-developed institutional capacity by program staff and local stakeholders to build broader applications of COMACO under existing national policy frameworks while disseminating results, best practices and lessons-learned for informing potential partners how to replicate the model elsewhere.

## **2. CONTRIBUTIONS OF MFA**

- 2.1** MFA shall, subject to Parliamentary appropriations, make available a financial grant not exceeding NOK 52,000,000 (Norwegian Kroner Fifty two Million) (the Grant) to be used exclusively to finance the Project during the planned period 2009-2014.
- 2.2** Upon completion of the Project, any unutilised funds, including unutilised accrued interests, shall be returned to MFA, unless the Parties have agreed in writing upon the utilisation of such funds.

## **3. OBLIGATIONS OF WCS**

WCS 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 have to be agreed upon in advance in writing,
- 3.2** Effect purchases for the Project in such a manner as to obtain the most favourable terms with regard to price, quality, delivery date and maintenance facilities, and to keep the same insured;
- 3.3** Enter into any agreements (subcontracts, subgrants) as WCS deems necessary for the successful implementation of the Project,
- 3.4** Provide funding as described in Annex I as well as cover for additional expenses that WCS identifies as necessary for the completion of the Project,
- 3.5** Ensure that Project funds, which shall include any accrued interests, are properly accounted for,
- 3.6** 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,
- 3.7** Provide copies to MFA of reports submitted to relevant authorities pertaining to the Project,
- 3.8** Promptly inform MFA in writing of any condition which interferes or threatens to interfere with the successful implementation of the Project,
- 3.9** 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,

- 3.10 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.

#### 4. DISBURSEMENTS

- 4.1 Disbursements from the Grant shall take place upon semi-annual written requests from WCS based on the financial needs of the Project and, with exception of the first and second requests, on approved work plans and budgets. The first disbursement, amounting to NOK 10,200,000, will be made upon signing of this Contract to cover the six months period April to September 2009. The second disbursement will cover the period October to December 2009, and will be based on a request from WCS and the financial need of the Project, and approval of the request by MFA.

- 4.2 Subsequent disbursements shall be based on requests from WCS and made as follows: The first annual disbursement will preferably be made in the first quarter of the year, upon approval of the annual report for the previous year, together with certified income and expenditure statement for the previous year, and approved annual work plans and budgets for the current year. The second annual disbursement will preferably be made in the third quarter of the year, upon the approved semi-annual progress report and certified income and expenditure statement for the period January to June that year, and the audited accounts for the previous year. Along with the disbursement requests, except the first and second request, WCS shall state the cash balance of the Project and submit a statement of bank balances for the Project from the bank.

- 4.3 When determining the amount to request, WCS shall take into account unspent disbursed amounts and income from all sources as well as any accrued interests.

- 4.4 Funds will be transferred upon MFA's approval of the request to a WCS bank account. WCS 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 WCS shall submit the following reports/documentation to MFA:

- An annual progress report for the previous year within the first quarter each year
- A budget and work plan for the year within the first quarter each year
- A brief semi-annual progress report and statement of accounts, covering the period January to June within the third quarter each year
- The audited annual financial statements within the third quarter each year. The audit report for the final year should be submitted within three months of the completion of the Project
- A final report for the whole Project period, as well as financial statements from end of the previous audit until completion of the Project within three months of the completion of the Project.

For purposes of this Contract, certification of financial accounts shall require a signed statement from an authorized staff member of WCS that the accounts accurately represent the expenditures incurred for the reporting period.

- 5.2 The annual progress report shall include the following information:

- A description of actual outputs compared to planned outputs
- A brief summary of the use of funds compared to budget
- An assessment of the efficiency of the Project (a measure of how efficiently resources/inputs are converted into outputs)
- An explanation of major deviations from the plan

- An assessment of problems and risks (internal or external to the Project) that may affect the success of the Project
- An assessment of the need for adjustments to activity plans and/or inputs and outputs, including actions for risk mitigation.
- A brief assessment of achievements in relation to purpose.

5.3 The final report shall include the following information:

- The topics listed in Clause 5.2 above
- 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 still continue after the external assistance has been concluded
- A summary of main "lessons learned".

5.4 MFA shall respond in writing within two weeks after the receipt of the reports and documentation. MFA shall approve the work plans and budgets in writing.

## 6. AUDIT

6.1 The annual financial statements of the Project shall be audited by an independent and recognised professional accountant (auditor) acceptable to MFA. The audit shall at least cover the issues mentioned in the Terms of Reference in Annex II to the Contract. WCS 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 the third quarter of each year. WCS shall comment upon the auditor's findings, and MFA shall respond within two weeks upon reception of the report.

The first audit shall cover the period 1 April 2009 to 31 December 2009.

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

## 7. MEETINGS AND REVIEWS

7.1 Annual meetings shall be held within the first quarter each year unless otherwise agreed in writing. The meetings shall be called and chaired by WCS. The purpose of these meetings is to discuss the progress of the Project, including results and fulfilment of agreed obligations, 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. Documentation for the annual meeting shall be submitted to the Embassy at least three weeks before the meeting. Central elements of the discussion and all decisions from the consultations shall be recorded in agreed minutes.

7.2 A mid-term review focussing on progress to date and the effectiveness of the Project, i.e. the extent to which the Purpose is being/have been achieved, shall be carried out in the second quarter of 2011. An end of project review will be carried out within six months of completion of the Project. An assessment of the Project's impact may also be included in the review.

7.3 The cost of the reviews shall be covered by the Grant.

7.4 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 MFA from funds over and above the Grant.

## 8. CORRUPTION

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 undertakes 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 WCS 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 WCS and after providing a reasonable opportunity of at least thirty (30) days to cure such default or non performance, cancel this Contract. MFA may 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 WCS or of a beneficiary of the aid funds without WCS having taken timely and appropriate action satisfactory to MFA to remedy the situation.

## 10. INTELLECTUAL PROPERTY AND ACKNOWLEDGMENTS.

10.1 Any work created or invented by WCS under this Contract, including any and all graphic, audio or visual materials, databases, processes, reports, studies, photographs (and negatives), computer programs, and any and all writings or other similar works or documents, along with all supporting data and material, whether on paper, disk, tape, digital file or in any other medium (any "Creative Work"), will be and remain the intellectual property of WCS, however, MFA may use the work without paying royalties. The name and brand logo for COMACO is the intellectual property of WCS.

10.2 The names, logos and trademarks of WCS and COMACO, on the one hand, of the Norwegian government, on the other hand, may be used only with the

express written authorization of the relevant Party, as the case may be, and in accordance with any applicable license or guidelines. Notwithstanding the foregoing, no additional authorization will be required for any use of a Party's name, logo or other trademark in any publication in any medium, form or format, or any press release or public announcement that has been approved in writing in advance by both Parties.

- 10.3 WCS may publish the results of work carried out under this Contract, in whole or in part, in draft or in final form. WCS will be solely responsible for any publication that it prepares or publishes.
- 10.4 Each Party agrees to credit and identify the other Party, and, if appropriate, the other Party's respective contributions and services, *reasonably prominently and on an equal basis* in any publication, in whatever medium, form or format, published by the first Party and relating to activities pursuant to this Contract. Each Party further agrees so to credit and identify the other *reasonably prominently* in any lecture, interview with the media or other public appearance with respect to work under any grant subject to this Contract. Advance approval of that Party's name and logo.

## 11. EQUIPMENT

Ownership of equipment, vehicles, supplies and other properties financed from the Grant hereunder shall vest in WCS. WCS shall be responsible for the maintenance and insurance, as necessary, for such property. Property procured using Grant funds shall be used solely for purposes of the Project and COMACO-related activities.

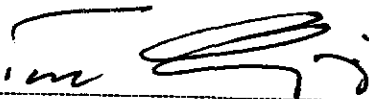
## 12. ENTRY INTO FORCE – TERMINATION – DISPUTES

- 12.1 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.
- 12.2 Notwithstanding the previous clause, each Party may terminate the Contract for any reason upon three months' written notice.
- 12.3 In case of termination of the Contract WCS shall exert its best efforts to stop expenditures of Grant funds and settle all outstanding non-cancellable liabilities and claims resulting from such termination in a rapid, orderly and economical manner as to the use of the funds from MFA. WCS shall not enter into any commitments using the MFA funds from the date of the receipt of the notice of termination. Any unspent funds from MFA not committed by the date of the receipt of the notice of termination, shall be returned to MFA without delay.

12.4 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 Norwegian court and settled in accordance with Norwegian law. The court venue shall be Oslo.

This Contract is drawn in duplicate with one copy for WCS and one for MFA.

Lusaka, Date *11. June 2009*  
For the Norwegian Ministry of  
Foreign Affairs



TORE GJØS  
Ambassador

*Tore F. Gjøs*  
Ambassador

New York, Date:  
For Wildlife Conservation Society



Patricia Calabrese  
Executive Vice President  
for Administration & CFO

Annex I: Agreed Project Summary  
Annex II: Terms of reference for audit

## ANNEX I AGREED PROJECT SUMMARY

### Identification of the Project

- Project Title/Name: COMACO Phase II "Upscaling Across the Luangwa Valley"
- Implementing institution: Wildlife Conservation Society of Zambia

### Description of the Project

#### Project Goal

- To realize a healthy Luangwa Valley ecosystem maintained by ecologically safe markets that sustain and integrate social, economic and environmental benefits for resource-poor households in order to increase the resilience of rural people to the effects of climate change and global market perturbations.

#### Project Purposes

- To implement a scalable business model that drives households to collectively and responsibly work together as a community to sustainably increase food and income security through improved resource management and farming practices that promote healthy ecosystem functions and improved conservation of renewable resources across the Luangwa Valley ecosystem.
- To provide a well-developed institutional capacity by program staff and local stakeholders to build broader applications of COMACO under existing national policy frameworks while disseminating results, best practices and lessons-learned for informing potential partners how to replicate the model elsewhere.

#### Expected results:

- Improved trends for healthy ecosystem functions and conservation success driven by self-financing markets in the east and progressively self-financing markets in the west that sustain increasing levels of household food security and income.
- Increased capacity and synergies among COMACO actors to build added value benefits to conservation, markets and lessons learned for promoting adoption of COMACO elsewhere.

#### Inputs:

- Equipment, logistical support and/or facilities
- Funds
- Technical assistance

#### Main indicators:

- a) Organizational and ownership structure of COMACO
  - newly instituted board with fully functional local advisory committee for each Community Trading Centre (CTC)
- b) Household annual income
  - # households selling commodities to CTC
  - average household earnings derived from COMACO

- total annual income, % derived from COMACO
- c) Household food security
  - # produce group members, % practicing improved farming practices
  - Maize (primary food crop) yield achieved from improved farming practices relative to non compliant farmers
  - Estimated food yield by group member
  - Average food crops grown by group member
- d) COMACO business sustainability
  - Total crop purchases per CTC
  - Total sales per CTC by product
  - Profit/loss statement for each CTC and COMACO as whole
  - Total products
  - % margin per product for each CTC
  - % of total sales from value-added processed products and from commodity market sales
- e) Conservation of natural resources
  - % reduction in unsustainable land use practices (illegal killing of wildlife, charcoal making, farming on slopes, illegal fishing practices, etc) as function of COMACO sales and number of farmers selling to COMACO
  - % producer groups compliant with conservation guidelines
  - # local advisory committees actively promoting community compliance to conservation producer group cooperatives actively promoting conservation compliance

### **Major risk factors**

These include:

#### **Gender imbalance**

Women are a major producer of commodities to COMACO and contribute greatly to the next generation's cultural values and sets of skills through their strong maternal attachment to the welfare and education of their children.

#### **Program ownership and support**

Though WCS has a legitimate and active role in the continued development and management of COMACO, WCS seeks to ensure COMACO is a Zambian program with strong investment in its success by Zambians from as many levels of Zambian society as possible.

#### **Rapid population build-up without compliance, leading to increased environmental costs**

COMACO could increase risks to environmental land management if its trade benefits in rural areas attract high rates of immigration into the areas where it operates or if participating producer group members do not comply with conservation guidelines.

**Over-reliance on organic farming**

By over-relying on organic farming, COMACO could reduce potential crop yields and thus, increase risks of food and crop shortages.

**Unsuccessful products**

COMACO risks loss of important revenue and increased overhead costs if products are not carefully selected with a reasonably high certainty of commercial success.

**Over-production of commodities**

WCS has already seen a dramatic rise in commodity production as commodity prices increase.

**Potential health effects from increasing incomes**

One possible concern is the possibility that increased incomes may contribute to the increased incidence of transactional sex and hence the spread of sexually-transmitted diseases, including HIV and AIDS.

**Food safety**

Product safety is a major concern for WCS, which fully recognizes the potential liabilities when COMACO's food products do not meet full compliance to food safety and health standards.

**Crop or commodity storage losses**

COMACO could suffer large economic losses from extreme weather or pest infestations affecting crop yields or from serious spoilage or infestations of stored commodities.

Cash flow disruptions caused by possible effects of extreme weather.

**Staff safety with potentially dangerous machines**

Each CTC operates a range of processing equipment which could cause injury to staff if personnel are careless or not well trained on safety precautions.

**Market instability and product competition**

While COMACO currently appreciates strong consumer demand for most all of its products (Yummy Soy is still struggling to obtain large volume sales), there are risks that competing brands may emerge that could offer a better product at lower prices.

**Fraud and theft**

Various steps WCS has begun to initiate and will continue to maintain during Phase 2 to address this risk include annual staff management meetings to develop improved controls, CTC bonus incentives when such problems do not occur, increasing internal audit inspections to a monthly schedule, and bi-weekly business management meetings to review audit inspection reports and other management needs to reduce fraud and theft risks.

Overall Budget for COMACO Phase II

EXPENSE CATEGOR Y	YEAR 1 NORWA Y	YEAR 1 WCS	YEAR 2 NORWAY	YEAR 2 WCS	YEAR 3 NORWAY	YEAR 3 WCS	YEAR 4 NORWAY	YEAR 4 WCS	YEAR 5 NORWAY	YEAR 5 WCS	TOTAL NORWAY	TOTAL WCS	TOTAL IN USD	TOTAL IN NOK
Head office support	212,850	271,700	198,394	263,358	322,921	178,955	260,508	70,945	216,497	73,502	1,211,170	858,461	2,069,631	13,970,007
Expansion on East	712,770	418,140	569,426	415,287	280,576	85,826	236,425	-	184,826	-	1,984,022	919,253	2,903,275	19,597,109
Expansion on West	762,920	-	768,980	-	421,277	-	307,439	-	269,275	-	2,529,890	-	2,529,890	17,076,759
Support for increased trade	278,000	-	253,080	-	189,225	-	36,438	-	37,725	-	794,468	-	794,468	5,362,656
Monitoring and Evaluation	137,750	30,000	69,485	30,000	94,892	30,000	61,482	30,000	98,868	30,000	462,477	150,000	612,477	4,134,222
Total before indirect costs	2,104,290	719,840	1,859,364	708,645	1,308,890	294,782	902,293	100,945	807,190	103,502	6,982,027	1,927,714	8,909,742	60,140,755
Indirect costs @ 8% of budget	168,343	-	148,749	-	104,711	-	72,183	-	64,575	-	558,562	-	558,562	3,770,101
Total with indirect costs (USD)	2,272,633	719,840	2,008,113	708,645	1,413,601	294,782	974,476	100,945	871,765	103,502	7,540,590	1,927,714	9,468,304	
Total with indirect costs (NOK)	15,340,274	4,858,920	13,554,771	4,783,354	9,541,794	1,989,775	6,577,694	681,379	5,884,255	698,641	50,898,787	13,012,070		63,910,857

The total proposed budget for the five year period is United States Dollars nine million four hundred sixty thousand three hundred and four (USD 9,468,304) which is approximately Norwegian Krone sixty three million nine hundred and ten thousand eight hundred fifty seven (NOK 63,910,857) at the exchange rate of USD1=NOK6,75. The Norwegian contribution is up to NOK 52,000,000 (which includes about NOK 1,000,000 for reviews). WCS and her partners will cover the balance of United States Dollars one million nine hundred twenty seven thousand seven hundred and fourteen (USD 1,927,714).

## **Annex II Terms of Reference for audit**

The auditor shall carry out the audit in accordance with any national legislation for NGOs 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 counter funds from WCS have been made available according to the budget in Annex 1.
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The above list does not preclude the organisation or the auditor from addressing further issues.

The auditor shall also, 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.