

**CONFORMED COPY**

**CREDIT NUMBER 3598 BEN**

# **Development Credit Agreement**

**(Cotton Sector Reform Project)**

**between**

**REPUBLIC OF BENIN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated February 15, 2002**

**CREDIT NUMBER 3598 BEN**

## **DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated February 15, 2002, between REPUBLIC OF BENIN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by Association Interprofessionnelle du Coton (AIC) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to AIC, as set forth in this Agreement;

(C) the Association has received from the Borrower a development policy document dated July 2001, describing the policy framework of the Borrower for its rural sector (hereinafter called the Policy Framework), and declaring the Borrower's commitment to comply with the Policy Framework; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and AIC;

NOW THEREFORE the parties hereto hereby agree as follows:

### **ARTICLE I**

#### **General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(b) The second sentence of Section 5.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) “AIC” means the Association Interprofessionnelle du Coton, a non-profit association established and operating under the Borrower’s laws and regulations pursuant to its statutes dated October 26, 1999 (the AIC Statutes), and referred to in Section 3.01 (a) of this Agreement;

(b) “AIC Project Account” means the account referred to in Section 2.06 of the Project Agreement (as hereinafter defined);

(c) “Borrower’s Project Account” means the account referred to in Section 3.05 of this Agreement;

(d) “CFA Franc” or “CFAF” means the currency of the Borrower;

(e) “COD” means the Cellule des Opérations de Dénationalisation, the privatization unit at MECCAG-PD (as hereinafter defined), established under the Borrower’s Decree No. 99-513 dated November 2, 1999 (the COD Decree);

(f) “CSPR” means the Centrale de Sécurisation des Paiements et du Recouvrement, a groupement d’intérêt économique established and operating under the Borrower’s laws and regulations pursuant to its statutes dated October 25, 2000 (the CSPR Statutes), and referred to in Section 6.01 (e) of this Agreement;

(g) “EA” means the environmental assessment for the Project, composed of the environmental audit of the ginning sector dated February-March 2001 and the pest management plan for cotton production dated February 2001, as the same may be amended from time to time, and such term includes any schedules to the EA;

(h) “Eligible Categories” means categories (1) through (3), set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(i) “Eligible Expenditures” means the expenditures for goods and services referred to in Section 2.02 (a) of this Agreement;

(j) “EMP” means the environmental mitigation plan of the ginning sector for the Project described in the EA (environmental audit of the ginning sector dated February-March

(j) “EMP” means the environmental mitigation plan of the ginning sector for the Project described in the EA (environmental audit of the ginning sector dated February-March 2001; Section 8), and referred to in Section 5.03 of this Agreement;

(k) “FUPRO” means the Fédération des Unions de Producteurs, a non-profit association established and operating under the Borrower’s laws and regulations pursuant to its statutes dated May 7, 1995 (the FUPRO Statutes), and referred to in Section 6.01 (e) of this Agreement;

(l) “Financial Management Procedures Manual” means the manual outlining the administrative, financial, accounting and reporting procedures for the implementation of the Project referred to in paragraph B.1 of Schedule 3 to this Agreement and adopted pursuant to Section 7.01 (e) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Financial Management Procedures Manual;

(m) “IPMP” means the Integrated Pest Management Plan for the cotton production supported by the Project, setting forth a strategy and an action plan for adoption of adequate pest management practices by cotton producers, and referred to in Section 5.04 of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the IPMP;

(n) “MAEP” means Ministère de l’Agriculture, de l’Elevage et de la Pêche, the Borrower’s Ministry of Agriculture, Livestock and Fishing;

(o) “MECCAG-PD” means “Ministère d’Etat Chargé de la Coordination de l’Action Gouvernementale, de la Prospective et du Développement”, the Borrower’s Ministry of Planning;

(p) “Monitoring and Evaluation Plan” means the plan outlining the monitoring and evaluation arrangements for the Project, referred to in paragraph B.1 of Schedule 3 to this Agreement and to be adopted pursuant to Section 5.05 of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Monitoring and Evaluation Plan;

(q) “Project Agreement” means the agreement between the Association and AIC of even date, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(r) “Project Implementation Manual” means the manual setting out, inter alia, the procurement and disbursement procedures, the institutional aspects, the work plans and other arrangements for the implementation of the Project, referred to in paragraph B.1 of Schedule 3 to this Agreement and adopted pursuant to Section 7.01 (e) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Project Implementation Manual;

(s) “Project Management Report” means each report prepared in accordance with Section 4.02 of the Project Agreement;

(t) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on April 5, 2001 and on behalf of the Borrower on April 10, 2001;

(u) “Project Quarter” means the three-month period beginning from the Effective Date and ending three months thereafter (the First Project Quarter) and any three-month period

(u) “Project Quarter” means the three-month period beginning from the Effective Date and ending three months thereafter (the First Project Quarter) and any three-month period beginning at the end of the First Project Quarter, or at the end of any subsequent Project Quarter;

(v) “SONAPRA” means Société Nationale pour la Promotion Agricole, a state-owned company established and operating under the Borrower’s laws and regulations pursuant to the Borrower’s Decree No. 91-161 dated July 22, 1991, and referred to in Part E of Schedule 2 to this Agreement;

(w) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(x) “Steering Committee” means the multisector committee responsible for the general oversight of the carrying out of the Project, including the review and approval of annual work programs and budget, and referred to in paragraph B.1 of Schedule 3 to this Agreement and established pursuant to Section 7.01 (c) of this Agreement; and

(y) “Subsidiary Agreement” means the agreement to be entered into between the Borrower and AIC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement.

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fourteen million one hundred thousand Special Drawing Rights (SDR 14,100,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2006 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 1 and December 1 commencing June 1, 2012 and ending December 1, 2041. Each installment to and including the installment payable on December 1, 2021 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

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

paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the French Republic is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause AIC to perform, in accordance with the provisions of the Project Agreement, all the obligations of AIC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable AIC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall assist AIC in the carrying out of the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

(c) The Borrower shall make the proceeds of the Credit available to AIC as a grant under a subsidiary agreement to be entered into between the Borrower and AIC, under terms and conditions which shall have been approved by the Association and which shall include, but without being limited to, the provisions set forth in Part A of Schedule 3 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

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

(a) prepare jointly with AIC, and on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the objective of the Project; and

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

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by AIC pursuant to Section 2.03 of the Project Agreement.

Section 3.05. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall, for the purposes of making available its counterpart contribution to the financing of Part E of the Project:

(a) cause AIC to open and thereafter maintain, until the completion of Part E of the Project, an account in CFA Francs (the Borrower's Project Account) in the Treasury on terms and conditions satisfactory to the Association;

(b) deposit into the Borrower's Project Account an initial contribution of CFAF 50,000,000;

(c) thereafter replenish said account up to the initial amount of CFAF 50,000,000 at the end of each Project Quarter until the completion of Part E of the Project, or whenever its balance shall be less than CFAF 25,000,000; and

(d) ensure that amounts deposited into the Borrower's Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods and services for Part E of the Project in addition to those financed from the proceeds of the Credit.

## **ARTICLE IV**

### **Financial Covenants**



Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) 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 the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

## **ARTICLE V**

### **Other Covenants**

Section 5.01. The Borrower shall, by June 30, 2002, prepare a plan of action acceptable to the Association to mitigate the loss of employment in the Borrower's cotton sector that may result from the activities carried out under the Project.

Section 5.02. The Borrower shall, by December 31, 2002, take all measures necessary to

Section 5.02. The Borrower shall, by December 31, 2002, take all measures necessary to assist in the setting up of an independent rural development fund, which shall mobilize the necessary resources to sustain the activities under Part D of the Project after the completion of the Project, to be operated under the Borrower's laws and regulations, in a manner satisfactory to the Association.

Section 5.03. The Borrower shall ensure that the ginning companies located in the Borrower's territory fully implement the EMP by June 30, 2003, in a manner satisfactory to the Association.

Section 5.04. The Borrower shall: (a) by June 30, 2002, adopt the IPMP prepared by AIC under Section 2.12 of the Project Agreement, in form and substance acceptable to the Association; and (b) ensure that the IPMP be complied with in a timely manner by the cotton producers located in the Borrower's territory, in a manner satisfactory to the Association.

Section 5.05. The Borrower shall adopt the Monitoring and Evaluation Plan prepared by AIC under Section 2.11 of the Project Agreement, in form and substance satisfactory to the Association, not later than four months from the Effective Date.

## **ARTICLE VI**

### **Remedies of the Association**

Section 6.01. Pursuant to section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) A situation shall have arisen which shall make it improbable that the Policy Framework or a significant part thereof will be complied with.

(b) AIC shall have failed to perform any of its obligations under the Project Agreement.

(c) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that AIC will be able to perform its obligations under the Project Agreement.

(d) The AIC Statutes governing the operations of AIC shall have been amended, suspended or waived so as to affect materially and adversely the ability of AIC to perform any of its obligations under the Project Agreement.

(e) The C SPR Statutes governing the operations of C SPR, the COD Decree governing the operations of COD or the FUPRO Statutes governing the operations of FUPRO shall have been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the implementation of the Project.

(f) Any law, any other legal instrument enacted or any legal document entered into pursuant to Section 5.02 of this Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations of the rural development fund.

Section 6.02. Pursuant to section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any events specified in paragraphs (a), (b), (e) and (f) of Section 6.01 of this Agreement shall occur and shall continue for a period of thirty (30) days after notice thereof shall have been given by the Association to the Borrower; and

(b) the event specified in paragraph (d) of Section 6.01 of this Agreement shall occur.

## **ARTICLE VII**

### **Effective Date; Termination**

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Agreement has been executed on behalf of the Borrower and AIC;

(b) the Borrower's Project Account has been opened and the initial contribution referred to in Section 3.05 (b) of this Agreement has been deposited therein;

(c) the Borrower has: (a) taken all measures to establish the Steering Committee in a manner, and with members and staff in adequate numbers and whose qualifications and experience are satisfactory to the Association; and (b) appointed the representative of the MAEP as chairman of the Steering Committee;

(d) the AIC Project Account has been opened and the initial contribution referred to in Section 2.06 (b) of the Project Agreement has been deposited therein;

(e) the Borrower has adopted the Project Implementation Manual and the Financial Management Procedures Manual, both in form and substance acceptable to the Association; and

(f) AIC has established an accounting and financial management system for the

(f) AIC has established an accounting and financial management system for the Project, satisfactory to the Association.

Section 7.02 The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by AIC, and is legally binding upon AIC in accordance with its terms; and

(b) that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and AIC and is legally binding upon the Borrower and AIC in accordance with its terms.

Section 7.03. 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 VIII**

### **Representative of the Borrower; Addresses**

Section 8.01. The Minister of the Borrower at the time responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministère des Finances et de l'Economie  
B.P. 302  
Cotonou  
Republic of Benin

Cable address:	Telex:	Facsimile:
MINFINANCES	5009 or	(229) 30 18 51
COTONOU	5289MINFIN	(229) 31 53 56

For the Association:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433

United States of America

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF BENIN

By /s/ Cyrille Oguin  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo  
Regional Vice President  
Africa

### SCHEDULE 1

#### Withdrawal of the Proceeds of the Credit

##### A. General

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

Amount of the Credit Allocated	% of
-----------------------------------	------

<u>Category</u>	<u>(Expressed in SDR Equivalent)</u>	<u>Expenditures to be Financed</u>
(1) Equipment, vehicles, furniture and materials		
(a) under Parts A, B, C and E of the Project	1,790,000	100% of foreign expenditures and 85% of local expenditures
(b) under Part D of the Project	780,000	80 % of costs incurred from the Effective Date to December 31, 2003; and 60% of costs incurred thereafter
(2) Consultants' services, training and audits		
(a) under Parts A, B, C and E of the Project	5,000,000	70%
(b) under Part D of the Project	2,400,000	80% of costs incurred from the Effective Date to December 31, 2003; and 60% of costs incurred thereafter
(3) Operating Costs	1,870,000	80% of costs incurred from the Effective Date to December 31, 2003; and 60% of costs incurred thereafter
(4) Refunding of Project Preparation Advance	450,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(5) Unallocated	1,810,000	
TOTAL	14,100,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any

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

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that, if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”; and

(c) the term “operating costs” means the incremental operating costs incurred by AIC on account of Project implementation, management and supervision, and by COD, CSPR and FUPRO on account of Project implementation, including office supplies, office rental, communication costs, office equipment and vehicle maintenance and operating costs, travel and other allowances, local contractual staff salaries; but excluding salaries of the Borrower’s civil servants.

3. Notwithstanding the provision of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$50,000 equivalent each; (ii) consultants’ services (firms) under contracts costing less than \$50,000 equivalent each; (iii) consultants’ services (individuals) under contracts costing less than \$25,000 equivalent each; or (iv) operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

#### B. Special Account

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

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

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of the Project Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of the Project Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further 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 Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

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

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of the Project Agreement;

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

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

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 Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all



(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

## **Annex A**

**to**

### **SCHEDULE 1**

#### **Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports**

1. For the purposes of this Annex, the term “Authorized Allocation” means an amount of CFA Francs 500,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of CFA Francs 250,000,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 3,000,000.

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

(a) For withdrawals of the Special Account’s Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special

shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B**  
**to**  
**SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Made  
On the Basis of Project Management Reports**

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed CFA Francs 750,000,000.

**SCHEDULE 2**

**Description of the Project**

The objective of the Project is to assist the Borrower in increasing the productivity and

The objective of the Project is to assist the Borrower in increasing the productivity and efficiency of its cotton sector, by moving from a monopolistic, centrally administered production system to a system based on competition.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objective:

Part A: Support to AIC and Project Management

1. Strengthening the institutional and technical capacities of AIC, through the provision of technical advisory services and training, and the acquisition of equipment and vehicles.
2. Carrying out financial audits of the Project, AIC, C SPR and FUPRO.

Part B: Support to C SPR

Strengthening the institutional and technical capacities of C SPR to establish effective marketing and credit recovery mechanisms for the production of cotton, through the provision of technical advisory services and training, and the acquisition of equipment and vehicles.

Part C: Support to FUPRO and its Member Organizations

Strengthening the institutional and technical capacities of cotton producer organizations at the local and national level, through the provision to FUPRO and its member organizations of technical advisory services and training, and the acquisition of equipment and vehicles.

Part D: Support for the Implementation of Sector-wide Technical Services Programs

Preparation and implementation of annual sector-wide technical services programs including, inter alia, programs relating to: (i) environmentally sound cotton ginning and pest management practices, including the IPMP; (ii) cotton grading and quality control; (iii) cotton research and production of improved seeds; (iv) training and extension services for cotton farmers; and (v) cotton price and income stabilization, through the provision of technical advisory services, and the acquisition of equipment.

Part E: Support for the Privatization of the Ginning Activities of SONAPRA

Strengthening the institutional and technical capacities of COD to prepare and implement a strategy for the privatization of the ginning activities of SONAPRA, through the provision of technical advisory services and training, and the acquisition of equipment.

The Project is expected to be completed by December 31, 2005.

### **SCHEDULE 3**

#### **Implementation Program**

##### **A. Main Provisions of the Subsidiary Agreement**

The Subsidiary Agreement shall include, but without being limited to, provisions to the following effect:

- (a) the proceeds of the Credit shall be made available to AIC by the Borrower as a grant;
- (b) AIC shall perform all of its obligations under the Project Agreement;
- (c) goods and services required for the Project shall be procured in accordance with the Association's procedures as set forth in Schedule 1 to the Project Agreement; and
- (d) the various arrangements to be established between AIC and the Borrower's relevant agencies involved in the transfer and use of the proceeds of the Credit, and the implementation of the Project.

##### **B. Overall Project Implementation**

1. The Borrower shall maintain the Steering Committee during the implementation of the Project in a manner and with members and staff in adequate numbers, and whose qualifications, experience and performance are satisfactory to the Association. The Borrower shall ensure that: (i) the experience and performance of the three (3) Borrower's representatives on the Steering Committee, to be appointed in conformity with the provisions of the document establishing the Steering Committee, shall be satisfactory to the Association; and (ii) the concerned Borrower's Ministries and agencies shall collaborate with AIC and shall assist AIC in ensuring consistent application of the Borrower's sectoral policies and proper implementation of the Project, in compliance with the provisions of the EA, the IPMP, the Project Implementation Manual, the Financial Management Procedures Manual and the Monitoring and Evaluation Plan.
2. The Borrower shall participate and cause the Steering Committee to participate in the workshops referred to in paragraphs 2 and 3 of Schedule 2 to the Project Agreement.
3. The Borrower shall participate and cause the Steering Committee to participate in the Midterm Review referred to in paragraph 7 of Schedule 2 to the Project Agreement.
4. Except as the Association shall otherwise agree, the Borrower shall: (i) apply the criteria,

4. Except as the Association shall otherwise agree, the Borrower shall: (i) apply the criteria, policies, procedures and arrangements set out in the Project Implementation Manual, the Financial Management Procedures Manual and the Monitoring and Evaluation Plan; and (ii) not amend or waive, or permit to be amended or waived, the EA, the IPMP, the Project Implementation Manual, the Financial Management Procedures Manual and the Monitoring and Evaluation Plan or any provision thereof, in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of the Project.

