

CONFORMED COPY

CREDIT NUMBER 1830 STP

Development Credit Agreement

(Cocoa Rehabilitation Project)

between

DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 2, 1987

CREDIT NUMBER 1830 STP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 2, 1987, between DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE (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 Borrower intends to contract from Caisse Centrale de Cooperation Economique (CCCE) a loan in an amount equivalent to about one million dollars (\$1,000,000) to assist in financing Part E.1 of the Project on the terms and conditions set forth in an agreement (the CCCE Loan Agreement) to be entered into between the Borrower and CCCE;

(C) the Borrower intends to contract from the United States Agency for International Development and the Instituto de Cooperacao Economica of Portugal (USAID/ICE) a non-reimbursable contribution in an amount of nine hundred thousand dollars (\$900,000) and technical assistance to assist in financing Part E.2 of the Project on the terms and conditions set forth in an agreement (the USAID/ICE Agreement) to be entered into between the Borrower and USAID/ICE;

(D) the Borrower intends to contract from the Organization of Petroleum Exporting Countries Fund (the OPEC Fund) a loan in an amount equivalent to about one million one hundred thousand dollars (\$1,100,000) to assist in financing Part A of the Project on the terms and conditions set

forth in an agreement (the OPEC Fund Loan Agreement) to be entered into between the Borrower and the OPEC Fund;

(E) the Borrower intends to contract from the International Fund for Agricultural Development (IFAD) a loan in an amount equivalent to about one million nine hundred thousand dollars (\$1,900,000) to assist in financing Parts A, B, D and E.3 of the Project on the terms and conditions set forth in an agreement (the IFAD Loan Agreement) to be entered into between the Borrower and IFAD;

(F) the Borrower intends to contract from the World Food Programme (WFP) a non-reimbursable contribution in an amount equivalent to about six hundred thousand dollars (\$600,000) to assist in financing Parts A and B of the Project on the terms and conditions set forth in an agreement (the WFP Agreement) to be entered into between the Borrower and WFP;

(G) the Borrower intends to contract from the Association Francaise des Volontaires du Progres and the Fonds d'Aide et de Cooperation (AFVP/FAC) a non-reimbursable contribution in an amount equivalent to about three hundred thousand dollars (\$300,000) to assist in financing Parts A and B of the Project on the terms and conditions set forth in an agreement (the AFVP/FAC Agreement) to be entered into between the Borrower and AFVP/FAC;

(H) the Borrower intends to contract from the Banque Arabe pour le Developpement Economique de l'Afrique (BADEA) a loan in an amount equivalent to about six million dollars (\$6,000,000) to assist in financing Parts A and B of the Project on the terms and conditions set forth in an agreement (the BADEA Loan Agreement) to be entered into between the Borrower and BADEA; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(b) "Project Preparation Advances" means the project preparation advances granted by the Association to the Borrower pursuant to exchanges of letters dated May 26, 1984 and December 5, 1984; December 20, 1985 and February 27, 1986; and February 27, 1987 and March 12, 1987; between the Borrower and the Association;

(c) "EEA" means Empresa Estatal Agro-Pecuaria, a state enterprise of the Borrower operating in the agriculture and livestock sector;

(d) "Bela Vista EEA" means an EEA established and operating pursuant to Decreto-Lei No. 48/78 dated December 30, 1978 and Decreto-Lei No. 14/79 dated March 17, 1979;

(e) "Uba Budo EEA" means an EEA established and operating pursuant to Decreto-Lei No. 48/78 dated December 30, 1978 and Decreto-Lei No. 14/79 dated March 17, 1979;

(f) "POTO" means Estacao Experimental Agronomica, an agricultural experimental station of the Borrower located at Poto;

(g) "MADR" means Ministerio de Agricultura e Desenvolvimento Rural, the Borrower's Ministry of Agriculture and Rural Development;

(h) "BNSTP" means Banco Nacional de Sao Tome e Principe, the Borrower's Central Bank;

(i) "Management Contracts" means the contracts dated May 13, 1987 entered into between Bela Vista EEA and Uba Budo EEA, respectively, and management firms, for the purposes of Parts A and B of the Project; and

(j) "PSU" means the Project Support Unit referred to in Section 3.03 of this 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 six million one hundred thousand Special Drawing Rights (SDR 6,100,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Association, 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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall open and maintain in dollars in BNSTP on terms and conditions satisfactory to the Association: (i) a special account (Special Account A), for the purposes of Part A of the Project; (ii) a special account (Special Account B), for the purposes of Part B of the Project; and (iii) a special account (Special Account C), for the purposes of Parts C, D and E of the Project. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 1994 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 at the rate of one-half of one per cent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) 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 per cent (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 May 1 and November 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1 commencing November 1, 1997, and ending May 1, 2037. Each installment to and including the installment payable on May 1, 2007 shall be one-half of one per cent (1/2 of 1%) of such principal amount, and each installment thereafter shall be one and one-half per cent (1-1/2%) of such principal amount.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project or cause the Project to be carried out with due diligence and efficiency and in conformity with appropriate agricultural, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall make available to Bela Vista EEA and Uba Budo EEA, respectively, under terms and conditions which shall have been approved by the Association, as a contribution to said EEAs' equity, the proceeds of the Credit allocated to: (i) Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement to Bela Vista EEA; and (ii) Category (2) set forth in said table to Uba Budo EEA.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) For the purposes of assisting the Borrower in coordinating the execution of the Project by the departments and agencies of the Borrower, the Borrower shall establish, and thereafter maintain, a Project Support Unit (PSU) in the MADR, which shall report directly to the Minister of MADR.

(b) The PSU shall be adequately staffed, including: (i) a Project Coordinator, employed in accordance with the provisions of Section II of Schedule 3 to this Agreement; (ii) a qualified and experienced Deputy Project Coordinator, acceptable to the Association; and (iii) at least one support staff in charge of accounting and administrative services.

(c) The PSU shall be responsible for, inter alia: (i) the proper flow of information between all parties concerned with the Project; (ii) Project administration, including the flow of Project funds; and (iii) monitoring and evaluation of progress achieved in the execution of the Project, including the preparation of progress reports.

Section 3.04. The Borrower shall, not later than March 31, 1988: (a) adopt measures to provide the EEAs with effective management autonomy; (b) elaborate and implement a flexible salary system for field workers and team leaders; and (c) authorize the EEAs to hire staff and dismiss redundant or undisciplined staff; all in a manner satisfactory to the Association.

Section 3.05. The Borrower shall:

(a) not later than December 31, 1987, or such other date as the Association may agree, furnish to the Association, for its review and approval, draft statutes for Bela Vista EEA and Uba Budo EEA; and

(b) ensure that said statutes come into force promptly after the Association's approval.

Section 3.06. The Borrower shall, not later than December 31, 1987:

(a) cause Bela Vista EEA and Uba Budo EEA to: (i) establish rules, acceptable to the Association, determining who is entitled to reside on the estates of Bela Vista EEA and Uba Budo EEA; and (ii) confirm the rights of the workers employed at said time by said EEAs to reside on said estates with their families; and

(b) relocate families not entitled to reside on said EEAs' estates, in accordance with a plan acceptable to the Association.

Section 3.07. The Borrower shall:

(a) at all times, ensure that agricultural equipment and inputs are available to smallholders;

(b) not later than December 31, 1988, review in consultation with the Association the system of import and sale of such equipment and inputs; and

(c) based on such review, promptly thereafter, modify such system in a manner acceptable to the Association.

Section 3.08. The Borrower shall:

(a) not use or permit its EEAs to use chemicals detrimental to the environment, including such chemicals as the Association may from time to time designate to this effect in writing to the Borrower;

(b) not later than September 30, 1988, submit to the Association, for its review and approval, a plan to monitor and control chemical residues in streams and other parts of the biosphere, and thereafter implement such plan; and

(c) cause the management firms referred to in Section II of Schedule 3 to this Agreement to train workers in Bela Vista EEA and Uba Budo EEA in the safe use of chemicals.

Section 3.09. The Borrower shall, not later than September 30, 1988, exchange views with the Association on the strategies in the areas referred to in Part E.4 of the Project and the contents of the studies included in Part E.5 of the Project, the recommendations included therein and action plans for the implementation of said strategies and recommendations.

Section 3.10. (a) The Borrower and the Association shall undertake a joint interim review of the Project in cooperation with Bela Vista EEA, Uba Budo EEA and the three units for applied research, training and food crop development under Part E. 1, 2 and 3 of the Project, not later than December 31, 1989, or such other date as the Association may agree.

(b) Thereafter, the Borrower shall promptly take, and cause the entities referred to in paragraph (a) of this Section to take, such measures as the Association shall consider adequate on the basis of such review to ensure the achievement of the objectives of the Project as set forth in Schedule 2 to this Agreement.

Section 3.11. Not later than June 30, 1991, or such other date as the Association may agree, the Borrower shall furnish to the Association for its review a plan to pursue the objectives of the Project after the Project's completion.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts C, D and E of the Project of the departments or agencies of the Borrower responsible for carrying out said Parts of the Project or any portion thereof.

(b) The Borrower shall:

- (i) furnish to the Association, as soon as available, but in any case not later than four months after the end of each fiscal year, the accounts referred to in paragraph (a) of this Section including Special Account C;
- (ii) have the records and accounts referred to in paragraph (a) of this Section including Special Account C for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (iii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iv) 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.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditures submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) The Borrower shall cause Bela Vista EEA and Uba Budo EEA to maintain records and accounts adequate to reflect in accordance with sound accounting practices their operations and financial condition.

(b) The Borrower shall cause Bela Vista EEA and Uba Budo EEA each to:

- (i) furnish to the Association, as soon as available, but in any case not later than four months after the end of each fiscal year, the accounts referred to in paragraph (a) of this Section including Special Accounts A and B;
- (ii) have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and, accounts for Special Accounts A and B for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (iii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of their financial statements for such year as so audited, and (B) the

report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

- (iv) furnish to the Association such other information concerning said records, accounts and financial statements and the audit thereof, as the Association shall from time to time reasonably request.

Section 4.03. The Borrower shall:

- (a) permit Bela Vista EEA and Uba Budo EEA to deposit at least thirty percent (30%) of their foreign exchange revenues from the sale of cocoa in accounts in fully convertible currencies in foreign commercial banks, on terms and conditions acceptable to the Association; and

- (b) take all necessary steps to ensure that export taxes on cocoa sales shall not be increased beyond current levels in order not to affect materially and adversely the financial viability of the Project.

Section 4.04. (a) Except as the Association shall otherwise agree, the Borrower shall cause Bela Vista EEA and Uba Budo EEA not to incur any debt between the date of this Agreement and December 31, 1996, if after the incurrence of such debt the total amount of debts incurred by such EEA in a twelve-month period shall be greater than \$100,000 equivalent.

- (b) For the purposes of this Section: (i) the term "debt" means any indebtedness of the EEA maturing by its terms more than one year after the date on which it is originally incurred; and (ii) debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement on the date the agreement providing for such guarantee has been entered into.

Section 4.05. Except as the Association shall otherwise agree, the Borrower shall not, until December 31, 1994, permit Bela Vista EEA and Uba Budo EEA to make any distribution with respect to their equity.

Section 4.06. The Borrower shall not permit Bela Vista EEA and Uba Budo EEA to make any new investment, unless such investment is technically, economically and financially justifiable. Until the completion of the Project, prior to undertaking any such investment estimated to cost the equivalent of \$100,000 or more, the Borrower shall obtain the Association's approval therefor.

Section 4.07. Until the completion of the Project, the Borrower shall cause Bela Vista EEA and Uba Budo EEA to furnish to the Association, not later than September 30 of each year:

- (a) their respective detailed draft budget and work program for the following year, and projections for such budget and program for the subsequent year; and

- (b) their respective five-year investment program, including their investment budget for the following year and projections for the four subsequent years.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause Bela Vista EEA and Uba Budo EEA:

- (a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

- (b) to carry on their operations and conduct their affairs in accordance with sound administrative, financial and agricultural practices under the supervision of qualified and experienced management assisted by

competent staff in adequate numbers;

(c) at all times to be current in the payment of their workers' salaries; and

(d) at all times to operate and to maintain their plantations, plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and agricultural practices.

ARTICLE VI

Remedies of the Association

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

(a) any of the Management Contracts or any provision thereof shall have been assigned, amended, abrogated or waived, except as the Association shall have otherwise agreed;

(b) the statutes of Bela Vista EEA or Uba Budo EEA, referred to in Section 3.05 of this Agreement, shall have been amended, suspended, abrogated, waived or otherwise modified, except as the Association shall have otherwise agreed;

(c) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of Bela Vista EEA or Uba Budo EEA, or for the suspension of their operations; and

(d) (i) Subject to subparagraph (ii) of this paragraph:

(A) The right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(a) any of the events specified in paragraph (a), (b) and (c) of Section 6.01 of this Agreement shall occur; and

(b) the event specified in paragraph (d) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

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) (i) all conditions precedent to the effectiveness of one of the Management Contracts (other than the effectiveness of this Agreement and the payment of the start-up expenditures) have been fulfilled; (ii) all debts in arrears to BNSTP of the EEA which is a party to such Management Contract have been consolidated; and (iii) such EEA has established an accounting system acceptable to the Association; and

(b) the PSU has been established, and the Project Coordinator and Deputy Project Coordinator, referred to in Section 3.03 (b) of this Agreement, have been employed.

Section 7.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 7.03. The obligations of the Borrower under Articles IV and V of this Agreement and the provisions of paragraph (b) of Section 6.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister in charge of finance of the Borrower 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:

Ministerio das Financas
Sao Tome
Republica Democratica de Sao Tome
e Principe

Telex:

225 MIPLANO STP

For the Association:

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

Cable address:

Telex:

INDEVAS	440098 (ITT)
Washington, D.C.	248423 (RCA) or
	64145 (WUI)

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.

DEMOCRATIC REPUBLIC OF SAO TOME AND
PRINCIPE

By /s/ Joaquim Rafael Branco

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Caio K. Koch-Weser
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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 (Expressed in CategorySDR Equivalent)	% of Expenditures to be Financed	
(1) Plantation develop- ment for Part A of the Project:		
(a) Management services	970,000	100%
(b) Technical assistance, training and studies	80,000	100%
(c) Civil works	80,000	100% of foreign expenditures and 90% of local ex- penditures
(d) Equipment, machinery and vehicles	230,000	100% of foreign expenditures and 90% of local ex- penditures
(e) Agricultural inputs	80,000	100% of foreign expenditures and 90% of local ex- penditures
(2) Plantation develop- ment for Part B of the Project:		
(a) Management services	1,800,000	100%
(b) Technical assistance, training and studies	80,000	100%
(c) Civil works	150,000	100% of foreign expenditures and 90% of local ex- penditures
(d) Equipment, machinery and vehicles	80,000	100% of foreign expenditures and 90% of local ex- penditures

(e) Agricultural inputs	150,000	100% of foreign expenditures and 90% of local expenditures
(3) Technical assistance, training and studies:		
(a) for Parts C and D of the Project	80,000	100%
(b) for Part E of the Project	300,000	100%
(4) Office equipment and supplies for the PSU	80,000	100%
(5) Refunding of Project Preparation Advances	1,200,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	740,000	
TOTAL	6,100,000	

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 country other than that of the Borrower; and

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 250,000, may be made in respect of Categories (1) and (2) on account of payments made for expenditures before that date but after June 1, 1987; and

(b) expenditures to be financed out of the proceeds of the Credit allocated to Categories (1) and (2) set forth in the table in paragraph 1 of this Schedule, until: (i) all conditions precedent to the effectiveness of the corresponding Management Contract (other than the payment of the start-up expenditures) have been fulfilled; (ii) all debts in arrears to BNSTP of the corresponding EEA have been consolidated; and (iii) the corresponding EEA has established an accounting system acceptable to the Association.

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase the productivity of cocoa plantations and improve the performance of the agricultural sector in general and cocoa subsector in particular, in order to increase foreign exchange revenues and hence contribute to the Borrower's economic recovery.

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

Part A: Rehabilitation of Bela Vista EEA

1. Strengthening of enterprise management through a long-term Management Contract, including training of staff and gradual transfer of know-how and responsibilities to nationals of the Borrower.
2. Rehabilitation and replanting of about 1,700 ha of cocoa plantations.
3. Construction and repair of plantation infrastructure, including access roads, irrigation canals and agro-processing facilities.
4. Acquisition of agricultural machinery, inputs, office equipment and supplies, and vehicles.
5. Increasing labor productivity through the provision of adequate work incentives.
6. Allotment of foodplots and provision of foodcrop experts' services, tools and inputs to workers' families.
7. Improving social infrastructure for plantation workers, including: (i) rehabilitation of housing; (ii) carrying out a program of self-help construction of houses; (iii) improving the supply of water, sanitary facilities and electricity; (iv) construction and rehabilitation of day care facilities, schools, general store and eating facilities; and (v) provision of transport facilities for workers not residing on the estate.

Part B: Rehabilitation of Uba Budo EEA

1. Strengthening of enterprise management through a long-term Management Contract, including training of staff and gradual transfer of know-how and responsibilities to nationals of the Borrower.
2. Replanting and rehabilitation of about 1,800 ha of cocoa trees.
3. Construction and repair of plantation infrastructure, including access roads, irrigation canals and agro-processing facilities.
4. Acquisition of agricultural machinery, inputs, office equipment and supplies, and vehicles.
5. Increasing labor productivity through the provision of adequate work incentives.
6. Allotment of foodplots and provision of foodcrop experts' services, tools and inputs to workers' families.
7. Improving social infrastructure for plantation workers, including: (i) rehabilitation of housing; (ii) carrying out a program of self-help construction of houses; (iii) improving the supply of water, sanitary facilities and electricity; (iv) construction and rehabilitation of day care facilities, schools, general store and eating facilities; and (v) provision of transport facilities for workers not residing on the estate.

Part C: Assessment of and Support to EEAs other than Bela Vista EEA and Uba Budo EEA

1. Assessment of key constraints facing EEAS, and of their immediate management and technical needs.
2. Preparation of prefeasibility rehabilitation plans and other studies, and of detailed action programs to carry out such plans.

Part D: Assistance to Smallholders

1. Technical guidance and training for smallholders.
2. Supply of agricultural small tools and machinery and inputs to smallholders.

Part E: Strengthening of Agricultural Support Services

1. Establishment at POTO of a cocoa applied research and development unit

to provide technical support to EEAS, in particular Bela Vista EEA and Uba Budo EEA.

2. Establishment at Bela Vista EEA of an agricultural training unit to develop and implement training programs for EEA supervisory and administrative personnel, focusing on cocoa production.

3. Establishment at the Mesquita site of a food crop development unit for determining varieties of seeds most adaptable to the conditions of the country as well as accompanying cultural techniques.

4. Preparation and implementation of strategies and action plans in the following areas:

- (i) promotion of foreign investment;
- (ii) identification of appropriate land and crops for diversification and private smallholder development;
- (iii) improvement of land tenure through the development of a mechanism and procedures for granting land titles to individuals and of a legal framework for permanent usufruct land titles;
- (iv) cocoa marketing; and
- (v) role, organization, manpower planning and training needs of MADR.

5. Carrying out of studies:

- (i) on the effects of the cocoa rehabilitation program and crop diversification on the ecology, including the effects of the use of fuelwood for cocoa dryers on deforestation together with a forest inventory;
- (ii) on the assessment of the need and scope for financial services to the agricultural sector, including credit to smallholders; and
- (iii) for the preparation and implementation of projects in the agricultural sector.

* * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A. Procurement Procedures

1. Except as provided in paragraph 2 of this Part, civil works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Civil works, estimated to cost less than the equivalent of \$100,000 per contract, may be carried out by force account by Bela Vista EEA, Uba Budo EEA or the Borrower, as the case may be, or procured under contracts awarded on the basis of evaluation and comparison of bids invited from a list of at least three contractors eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), in accordance with procedures acceptable to the Association.

3. Agricultural inputs, construction materials, vehicles and equipment, estimated to cost less than the equivalent of \$100,000 per contract, may be procured under contracts awarded on the basis of comparison of price

quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part B. Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract, together with the other information required to be furnished to the Association pursuant to said paragraph 3, shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to this Agreement.

(c) The provisions of the preceding subparagraph (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants, including agricultural, financial and management consultants, and shall cause Bela Vista EEA and Uba Budo EEA to employ consultants, including management firms, the qualifications, experience and terms and conditions of employment of all of which shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) in the case of Special Account A, Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; (ii) in the case of Special Account B, Category (2) set forth in said table; and (iii) in the case of Special Account C, Categories (3) and (4) set forth in said table.

(b) the term "eligible expenditures" means expenditures 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 allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount to be withdrawn from the Credit Account and deposited in each of the Special Accounts pursuant to paragraph 3 (a) of this Schedule, equivalent in the case of Special Account A to \$100,000, in the case of Special Account B to \$100,000, and in the case of Special Account C to \$50,000.

2. Except as the Association shall otherwise agree, payments out of any

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

3. After the Association has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the corresponding Authorized Allocation and subsequent withdrawals to replenish it may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation concerned, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in such Special Account such amount or amounts as the Borrower shall have requested, provided that, in the case of Special Accounts A and B, all corresponding events specified in paragraph 3 of Schedule 1 to this Agreement shall have occurred.

(b) The Borrower shall furnish to the Association requests for replenishment of such Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into such Special Account such amounts as shall be required to replenish it with amounts not exceeding the amount of payments made out of such Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of any Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into any Special Account shall be made by the Association when either of the following situations first arises:

- (i) the Association shall have determined that all further withdrawals should be made directly by the Borrower from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the aggregate Authorized Allocations.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in any Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of a Special Account: (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association, deposit into the said Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into any of the Special Accounts shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in a Special Account will not be required to cover

further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount for crediting to the Credit Account.

