

CONFORMED COPY

CREDIT NUMBER 4005 CD

Development Credit Agreement

(Institutional Reform Support Credit)

between

REPUBLIC OF CHAD

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 1, 2004

CREDIT NUMBER 4005 CD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 1, 2004, between REPUBLIC OF CHAD (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Association has received from the Borrower a letter, dated October, 2004 (hereinafter called the Letter of Development Policy), describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

WHEREAS on the basis, *inter alia*, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in a single tranche as hereinafter provided;

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 May 1, 2004) with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"Project" means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.";

(b) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of

the deposit account specified in Section 2.02 of the Development Credit Agreement.”;

- (c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions”;

- (d) The last sentence of Section 5.03 is deleted;

- (e) Section 9.06 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”; and

- (f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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) “AFD” means the Administrative and Financial Directorate established in each of the Borrower’s ministries, the mission of which is to prepare the budget and program budgets, monitor budget execution, prepare procurement bids, review expenditures, and, in some cases, manage human resource;

(b) “Budget Directorate” means the directorate in charge of budget preparation and monitoring within the MEF (as hereinafter defined);

(c) “Budget Settlement Law” means for one given year the law by which budget outturns of the year are asserted and differences between the budget law and, if any, rectified subsequent budget law, on one hand, and budget outturns on the other hand, are approved;

(d) “Cabinet Council” means the Borrower’s Council of Ministers headed by the Prime Minister;

(e) “CCL” means *Comité de Coordination Local*, a local cotton producers’ organization established as an *association* and operating pursuant to an administrative authorization issued by the relevant *Préfecture*;

(f) “CCSRP” means the Borrower’s Petroleum Revenue Oversight and Control Board, established pursuant to Law No. 001/PR/99 and consisting of representatives of the Borrower’s public institutions, NGOs (as hereinafter defined) and civil society;

(g) “CESRAP” means *Cellule technique chargée de la Réforme de l’Administration Publique*, the committee established within the Borrower’s Ministry of Civil Service in charge of civil service reform coordination and implementation;

(h) “Cotontchad” means *Société Cotonnière du Tchad*, a company established under the Borrower’s laws and regulations and operating pursuant to its by-laws dated December 17, 1999;

(i) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;

(j) “HCI” means *Haut Comité Interministériel*, the Borrower’s High Inter-ministerial Committee, the appointed task force responsible for overseeing the implementation of the Program;

(k) “IFMIS” means the Integrated Financial Management Information System, a computerized budget preparation, execution and monitoring system;

(l) “MEF” means *Ministère de l’Economie et des Finances*, the Borrower’s ministry responsible for economy and finance;

(m) “NGO” means a non-governmental organization established and operating pursuant to the laws of the Borrower;

(n) “Payroll Directorate” means the Directorate of the MEF in charge of managing the payment of wages and salaries of civil servants;

(o) “Pilot Ministries” means the MEF, and the Borrower’s Ministries in charge of Planning, Development and Cooperation, Education, Higher Education, Health, Social Action and Family, Agriculture, Livestock and Justice;

(p) “Technical Committee” (*Comité Technique de Suivi*) means the committee in charge of monitoring the implementation of the Government’s structural adjustment program, consisting of the Secretaries General of all Ministries associated with the structural adjustment program and chaired by the Deputy Secretary General of the Presidency; and

(q) "Treasury" means the directorate within the MEF in charge of payment processing and public accounting.

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 seventeen million one hundred thousand Special Drawing Rights (SDR 17,100,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in Euros on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. The Closing Date shall be December 31, 2005 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 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 cancelled; 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 March 15 and September 15 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 March 15 and September 15, commencing March 15, 2015, and ending September 15, 2044. Each installment to and including the installment payable on September 15, 2024, 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 the Association 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 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

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, 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

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower at the time responsible for Planning, Development and Cooperation is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Planning, Development
and Cooperation

B.P. 286

N'Djamena

Republic of Chad

Telex:

Facsimile:

5329 KD

(235) 51 51 85

(235) 52 00 87

(235) 52 29 50

For the Association:

International Development Association

1818 H Street, N.W.

Washington, D.C. 20433

United States of America

Cable address:

Telex:

Facsimile:

INDEVAS

248423 (MCI) or

(202) 477-6391

Washington, D.C.

64145 (MCI)

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

REPUBLIC OF CHAD

By /s/ Abdoulaye Beri

Authorized Representative

ASSOCIATION INTERNATIONAL DEVELOPMENT

By /s/ Ali M. Khar

Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
6. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble to this Agreement

1. Governance

In accordance with paragraph 25 of the Letter of Development Policy, the Borrower has furnished to the Association satisfactory evidence that the following actions have been carried out:

(a) the Borrower's 2003 Budget Law has been published and made widely available;

(b) the reports on the audit of the use of HIPC funds between May 2001 and May 2002, and between June and December 2002 have been published on the Office of the Auditor General's website;

(c) the decree on the role and attributions of CCSRP has been adopted and published, and two analysts have been recruited by the same;

(d) an action plan to further improve customs services, including the reduction of the involvement of third parties in customs operations has been adopted by the Cabinet Council and implementation has been initiated;

(e) the report on the execution of the 2002 Budget Law has been completed and published on the Office of the Auditor General's website;

(f) a study for a policy on the public disclosure of information has been drafted and reviewed by HCI; and

(g) a survey on the users' perception of customs services has been finalized and reviewed by the Technical Committee.

2. Public Resource Management

In accordance with paragraphs 27, 29 and 31, respectively, of the Letter of Development Policy, the Borrower has furnished to the Association satisfactory evidence that the following actions have been carried out:

(a) Improving Budget Management

- (i) a medium-term macro-economic and expenditure framework and medium-term expenditure plans for the health and education sectors have been presented in the 2003 Budget documents submitted to Parliament;
- (ii) a medium-term expenditure plan for the Ministries in charge of Health, Education, Housing and Territorial Management, Agriculture, Livestock and Public Works has been prepared before the adoption of the 2004 Budget Law;
- (iii) the required number of qualified staff (fifteen economists) has been recruited in the Budget Directorate, including macro-economists for the economic forecasting sub-directorate (*sous-direction de la prévision*) and qualified executives for the investment sub-directorate (*sous-direction de l'investissement*);
- (iv) the first phase of the implementation of the IFMIS (design of the work program, installation of the computerized platform for software development and of a training room with approximately fifteen computers, definition of technical requirements and main changes needed to adapt the Burkina software, and the launching of budget preparation for a few Ministries with training of the agents involved) has been completed and the users' training at the MEF has been launched;
- (v) the needs in terms of qualified staff in the area of budget preparation and procurement for the AFD have been identified in the Ministries in charge of Health, Education, Higher Education, Housing and Territorial Management, Public Works, Justice, Agriculture, Livestock and Water and Environment;
- (vi) there has been a continued monthly preparation of the report on the execution of the budget in 2003, distinguishing between commitment, order to pay and payment, and distinguishing specifically the Ministries in charge of Education, Health, Social Action, Public Works, Housing and Territorial Management, Justice, Agriculture, Livestock and Water and Environment;

- (vii) the action plans to improve the delivery of public expenditures to health and education facilities has been finalized and their implementation launched;
- (viii) a public procurement plan has been produced in the Ministries in charge of Health, Social Action, Education, Higher Education, Housing and Territorial Management, Public Works, Justice, Agriculture, Livestock and Water and Environment for 2004; and
- (ix) the 2002 Budget Settlement Law has been submitted to Parliament before the adoption of the 2004 Budget Law.

(b) Increasing transparency and efficiency in public procurement

- (i) the new procurement code, including the texts creating an independent appeals system, has been adopted and draft implementation decrees have been prepared;
- (ii) the quarterly procurement bulletin has been regularly published; and
- (iii) the audit for the 2002 procurement contracts has been completed and published.

(c) Improving transparency and efficiency of human resource management in the civil service.

- (i) an audit of the Pilot Ministries, covering organizational, procedural and human aspects has been completed;
- (ii) the Technical Committee gathering all stakeholders in the civil service reform program implementation has been assigned the mission of consulting on and coordinating the reform agenda in a consensual and participatory way, and liaising with other key stakeholders, notably unions, and the terms of reference for the mission have been issued;
- (iii) the recommendations of the audit of the Pilot Ministries have been validated and an action plan for improvement of human

resources management in the civil service has been adopted by the HCI;

- (iv) a study assessing the financial impact of the civil service reform under various scenarios has been launched; and
- (v) a decision has been made by the Government regarding the choice of the computerized system for administrative and financial management of the civil service.

3. Ensuring Strong and Sustained Economic Growth

In accordance with paragraphs 33 and 34 of the Letter of Development Policy, the Borrower has furnished to the Association satisfactory evidence that the following actions have been carried out in the cotton sector:

- (a) an action plan for the restructuring of CCLs has been adopted;
- (b) a report has been prepared for HCI presenting the nine scenarios for the divestiture of the State from Cotontchad, and presenting the way forward, highlighting social, economic, financial, institutional and productive issues to be tackled; and a few selected scenarios have been adopted by HCI; and
- (c) an official agreement has been entered into between the Government and Cotontchad on the cross-debt situation.