

CONFORMED COPY

CREDIT NUMBER 3225-DJI

Development Credit Agreement

(Social Development and Public Works Project)

between

REPUBLIC OF DJIBOUTI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 10, 1999

CREDIT NUMBER 3225-DJI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 10, 1999, between REPUBLIC OF DJIBOUTI (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) Parts A, B and C.2 of the Project will be carried out by the Agence djiboutienne d'exécution des travaux d'intérêt public (ADETIP) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to ADETIP part of the proceeds of the Credit as provided in this Agreement; 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 Project Agreement of even date herewith between the Association and ADETIP;

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 December 2, 1997), 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 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and "Participating Countries" means, collectively, all such countries."

(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) "ADETIP" means Agence djiboutienne d'exécution des travaux d'intérêt public, a non profit agency for public works, established by the Borrower pursuant to the ADETIP Statutes (as hereinafter defined);

(b) "ADETIP Convention" means the agreement to be entered into between the Borrower and ADETIP pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the ADETIP Convention;

(c) "ADETIP Implementation Program" means the program set forth in Schedule 2 to the Project Agreement;

(d) "ADETIP Statutes" means the statutes governing the operations of ADETIP, adopted in May 1999, and such term shall include all schedules to, and the by-laws enacted under, the ADETIP Statutes;

(e) "Beneficiary Community" means a community determined to be eligible for a Community Subproject Grant (as hereinafter defined) in accordance with the eligibility criteria specified in Section IV of Schedule 2 to the Project Agreement and in the Project Implementation Manual (as hereinafter defined) and to whom or for whose benefit a Community Subproject Grant is made or proposed to be made;

(f) "Community Subproject Grant Agreement" means an agreement between ADETIP and a Beneficiary Community setting forth the terms and conditions under which a Community Subproject Grant shall be made available to the Beneficiary Community for the purpose of financing a Community Subproject under Part B.2 of the Project.

(g) "Community Subproject Grant" means a grant made or proposed to be made by ADETIP to a Beneficiary Community for the purpose of financing a Community Subproject under Part B.2 of the Project;

(h) "Community Subproject" means an activity carried out or to be carried out by a Beneficiary Community and financed or to be financed in part out of the proceeds

of the Credit under Part B.2 of the Project;

(i) "DINAS" means Direction nationale de la statistique, a department within the MEFP;

(j) "General Implementation Program" means the program set forth in Schedule 3 to this Agreement;

(k) "MEFP" means Ministère de l'Economie, des Finances et de la Planification chargé de la Privatisation, the Borrower's Ministry of Economy, Finance and Planning in charge of Privatization;

(l) "Pilot Phase of the Project" means the activities financed or to be financed out the proceeds of the Project Preparation Advance.

(m) "Project Account" means the account referred to in Section 3.03 (a) of this Agreement;

(n) "Project Agreement" means the agreement between the Association and ADETIP of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the ADETIP Project Agreement;

(o) "Project Implementation Manual" means the manual referred to in paragraph 1 of Section I of the General Implementation Program;

(p) "Project Management Report" means each report prepared in accordance with Section 4.02 (b) of this Agreement;

(q) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated December 16, 1998, and January 2, 1999 between the Borrower and the Association;

(r) "Public Subproject" means an activity carried out or to be carried out by ADETIP under Part A of the Project at the request of a department, agency or local authority of the Borrower or of a Beneficiary Community and financed or to be financed in part out of the proceeds of the Credit; and

(s) "Special Account" means the account referred to in Section 2.02 (b) 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 eleven million Special Drawing Rights (SDR 11,000,000).

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:

(i) 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; and

(ii) amounts paid (or, if the Association shall so agree, to be paid) by ADETIP on account of withdrawals made for the benefit of a Beneficiary Community under a Community Subproject Grant Agreement to meet the reasonable cost of goods, works and services required for a Community Subproject under Part B.2 of the Project, and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Association

on terms and conditions satisfactory to the Association including appropriate protection against setoff, seizure and attachment. Deposits into, and payments out of, the Special Account 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 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 December 31, 2003, 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 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 February 1 and August 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 February 1 and August 1 commencing August 1, 2009, and ending February 1, 2039. Each installment to and including the installment payable on February 1, 2019, 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 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 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:

(i) carry out Part C.1 of the Project through DINAS with the assistance of ADETIP and with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part C.1 of the Project;

(ii) without any limitation or restriction upon any of its other obligations under this Agreement, cause ADETIP to perform in accordance with the provisions of the Project Agreement all the obligations of ADETIP therein set forth, take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ADETIP to perform such obligations; and

(iii) shall not take or cause to be taken any action which would prevent or interfere with such performance of ADETIP.

(b) The Borrower shall enter into an agreement with ADETIP (hereinafter referred to as the ADETIP Convention), under which it shall:

(i) make the proceeds of the Credit allocated from time to time to Categories (1) (b), (2) (b), (3) (b), (4) and (5) (b) of the table in paragraph 1 of Schedule 1 to this Agreement, available to ADETIP on a non-reimbursable basis for the purposes of Parts A, B and C.2 of the Project under terms and conditions which shall have been approved by the Association, including but not limited to, the provisions set forth in Section III of Schedule 3 to this Agreement; and

(ii) provide for the terms and conditions under which ADETIP shall assist the Borrower in carrying out Part C.1 of the Project as set out in Section II of Schedule 3 to this Agreement.

(c) The Borrower shall exercise its rights and perform its obligations under the ADETIP Convention 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 ADETIP Convention or any provision thereof.

(d) Without limitation upon the provisions of paragraphs (a), (b) and (c) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Part C.1 of the Project and cause ADETIP to carry out Parts A, B and C.2 of the Project in accordance with the General Implementation Program and the ADETIP Implementation Program set forth in Schedule 3 to this Agreement and

Schedule 2 to the Project Agreement, respectively.

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 1 to the Project Agreement.

Section 3.03. 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 the Project:

(a) open and maintain an account (the Project Account) in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association;

(b) make an initial deposit into such account, in an amount equivalent to thirty-two thousand dollars (\$32,000), to finance the Borrower's contribution to the Project for the first six months;

(c) thereafter deposit into the Project Account at least once every six months, such amounts as shall be required to replenish the Project Account back to the level of the initial deposit referred to in paragraph (b) above; and

(d) use the Project Account funds exclusively to finance expenditures under the Project.

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) in respect of Parts A, B and C.2 of the Project shall be carried out by ADETIP pursuant to Section 2.04 of the Project Agreement.

Section 3.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall take steps, and cause ADETIP to take steps, to:

(a) prepare, 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 for the future operation of the Project; and

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

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 the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including 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; and

(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; and

(c) For all expenditures with respect to which withdrawals from the Credit

Account were made on the basis of statements of expenditure or Project Management Reports, the Borrower shall:

(i) 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; and

(ii) 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 expenditure or Project Management Reports 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) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than July 31, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report. (b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare or cause ADETIP to prepare in collaboration with the Borrower and in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) ADETIP shall have failed to perform any of its obligations under the Project Agreement;

(b) 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 ADETIP will be able to perform its obligations under the Project Agreement; and

(c) the ADETIP Statutes shall have been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the operations or financial condition of ADETIP or its ability to (i) carry out Parts A, B and C.2 of

the Project; (ii) assist the Borrower to carry out Part C.1 of the Project as provided for in this Agreement; or (iii) perform any of its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) the event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 Borrower and ADETIP have each adopted the Project Implementation Manual as described in paragraph 1 of Section 1 of Schedule 3 to this Agreement, including the detailed work program and budget contained in the Project Implementation Manual covering the first twelve months following the Effective Date.

(b) The ADETIP Convention has been entered into by the Borrower and ADETIP, respectively.

(c) The Borrower and ADETIP have each established a financial management system, including accounting procedures, satisfactory to the Association and adequate to ensure proper monitoring of Project activities.

(d) The Borrower has established the Project Account and deposited therein the initial deposit referred to in Section 3.03 (b) of this Agreement.

(e) The Borrower has hired an independent audit firm in accordance with Section II of Schedule 1 to the Project Agreement to carry out the audit of Project accounts.

(f) The capacity of ADETIP to carry out the Pilot Phase of the Project and to undertake procurement under the Credit has been found to be acceptable by the Association.

Section 6.02. The following events 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, and is legally binding upon, ADETIP in accordance with its terms; and

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

Section 6.03. 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.

Section 6.04. The obligations of the Borrower under Section 4.01 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or the date fifteen years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministère de l'Economie, des Finances et de la Planification
chargé de la Privatisation
B.P. 13
Djibouti City
Republic of Djibouti

For the Association:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable address:

INDEVAS
Washington, DC

Telex:

248423 (MCI) or
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 DJIBOUTI

By /s/ Robleh Olhaye

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael Sarris

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works		100% of foreign expenditures and 80% of local expenditures

	(a) under Part C.1 of the Project	25,000	
	(b) other than under Part C.1 of the Project	6,100,000	
(2)	Goods, equipment, vehicles and materials		100% of foreign expenditures and 75% of local expenditures
	(a) under Part C.1 of the Project	50,000	
	(b) other than under Part C.1 of the Project	110,000	
(3)	Consultants' services, and training:		100%
	(a) under Part C.1 of the Project	180,000	
	(b) other than under Part C.1 of the Project	1,030,000	
(4)	Community Subproject amounts	1,470,000	100% of
	Grants under Part B.2 of the Project		disbursed by ADETIP to or on behalf of a Beneficiary
	Community		
(5)	Operating Costs		
	(a) under Part C.1 of the Project	30,000	65%
	(b) other than under Part C.1 of the Project	1,110,000	100%
(6)	Refunding of Project pursuant	530,000	Amount due
	Preparation Advance		to Section 2.02 (c) of this Agreement
(7)	Unallocated	365,000	
	TOTAL	11,000,000	

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;

(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; and

(c) the term "operating costs" means the incremental operating costs incurred on account of Project implementation, management and supervision, including office supplies, communication costs, travel costs and salaries of project staff, but excluding salaries of members of the Borrower's civil service.

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; and

(b) a Community Subproject Grant unless such Community Subproject Grant has been made in accordance with the criteria and procedures and under the terms and conditions set forth or referred to in Section IV of Schedule 2 to the Project Agreement and in the Project Implementation Manual.

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 \$100,000 equivalent each; (ii) works under contracts costing less than \$100,000 equivalent each; (iii) consultants' services (firms) under contracts not exceeding \$50,000 equivalent; (iv) consultants' services (individuals) under contracts not exceeding \$20,000 equivalent; and (v) for all operational costs and training; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to contribute to poverty reduction in the territory of the Borrower and in particular to enhance the living standards of the poor in the city of Djibouti (which accounts for about 83% of the total population) by improving the quality of, and access to, basic economic and social infrastructure and services and by generating employment opportunities.

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: Social and Economic Infrastructure

Carrying out Public Subprojects, including:

1. Labor intensive urban infrastructure works.
2. Construction and/or rehabilitation of social and economic infrastructure and facilities.
3. Works to protect Djibouti-City's public architectural heritage.

Part B: Support to Community Development

1. Provision of training and technical advisory services to potential and actual Beneficiary Communities to assist them in identifying, preparing and carrying out Community Subprojects, including preparing community development plans.
2. Financing of specific community development subprojects through grants to Beneficiary Communities.

Part C: Institutional Capacity Building

1. Poverty Monitoring and Analysis

(a) Carrying out a household survey of economic and social indicators in the territory of the Borrower and designing and updating a poverty map based on such survey.

(b) Strengthening the capacity of DINAS to undertake poverty monitoring and analysis activities through (i) provision of technical advisory services and staff training; (ii) acquisition of office and other equipment; and (iii) rehabilitation of office buildings occupied or to be occupied by DINAS.

2. Project management and Implementation

(a) Strengthening the capacity of non governmental organizations to provide training and technical advisory services under Part B.1 of the Project through the provision of training.

(b) Strengthening the capacity of local contractors and consultants to undertake works under Parts A and B of the Project through the provision of training and technical advisory services.

(c) Strengthening the capacity of ADETIP to carry out Parts A, B and C.2 of the Project and to assist the Borrower to carry out Part C.1 of the Project through (i) provision of training and technical advisory services; and (ii) acquisition of office and other equipment and vehicles.

* * *

The Project is expected to be completed by June 30, 2003.

SCHEDULE 3

General Implementation Program

Section I. General

1. The Borrower shall:

(a) prepare and furnish to the Association a Project Implementation Manual, satisfactory to the Association, containing: (i) a statement of objectives and a general description of the Project; (ii) an implementation plan, including a financing plan covering the four-year period from 1999 to 2003 for each Part of the Project and a detailed work program and budget covering the first twelve months following the Effective Date; (iii) details of all procurement and disbursement arrangements including standard bidding documents (for works, goods and consultants' services), and reporting requirements on financial management; (iv) monitoring and evaluation indicators; and (v) other administrative, financial and organizational arrangements, as shall have been agreed with the Association for purposes of the Project; and

(b) carry out Part C.1 of the Project and cause ADETIP to carry out Parts A, B and C.1 of the Project in accordance with the Project Implementation Manual and not amend or waive the Project Implementation Manual or any provision thereof, in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of the Project.

2. Without limitation or restriction upon its obligations under Section 4.02 (b) of this Agreement and Sections 9.01 and 9.06 of the General Conditions related to cooperation and information and records and reports, respectively, the Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) furnish to the Association, every six months, beginning six (6) months after the Effective Date, a report of such scope and detail as the Association shall reasonably request, integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in carrying out the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) submit annual reports to the Association, beginning on the date twelve months after the Effective Date. Such reports shall address, as a minimum, evaluation of the performance of DINAS and ADETIP during the preceding twelve-month period, implementation and supervision of Project activities, procurement, rate of disbursement and any specific operational issues that have presented difficulties;

(d) review, jointly with the Association and ADETIP, the reports referred to in the preceding subparagraph, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said reports and the Association views on the matter; and

(e) no later than eighteen months after the Effective Date, carry out jointly with the Association and ADETIP, a mid-term review. Such review shall assess the overall progress in the implementation of the Project; the result of the monitoring and evaluation activities and progress on procurement, disbursement and other financial management issues.

Section II. DINAS

1. For the purposes of Part C.1 of the Project, the Borrower shall establish a Survey Unit within DINAS which shall manage and supervise all survey operations.

2. At the request, and on behalf, of DINAS, ADETIP shall select consultants and procure goods and works for Part C.1 of the Project and disburse the proceeds of the Credit in payment for goods and services for Part C.1 of the Project and shall make all withdrawal applications to the Association.

Section III. Provisions to be Included in the ADETIP Convention

The ADETIP Convention shall include, without being limited to, provisions to the following effect: ADETIP shall carry out Parts A, B and C.2 and assist the Borrower in carrying out Part C.1 of the Project as set out in Section II of this Schedule, all with due diligence and efficiency and in accordance with sound technical, managerial, and business standards, and shall maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources, and expenditures in respect of activities financed under the Project.

ADETIP shall employ at all times during the execution of the Project a General Manager and staff with adequate qualifications and experience satisfactory to the Association to carry out Parts A, B and C.2 of the Project and assist the Borrower in carrying out Part C.1 of the Project.

ADETIP shall use the procedures set out in the Project Implementation Manual to select Public Subprojects to be carried out under Part A of the Project.

ADETIP shall process Community Subproject Grants under Part B. 2 of the Project in accordance with the criteria and procedure and under the terms and conditions set forth or referred to in Section IV of Schedule 2 to the Project Agreement and in the Project Implementation Manual.

ADETIP shall exercise its rights under each Community Subproject Grant Agreement in such manner as to: (a) protect the interests of the Borrower, the Association and ADETIP; (b) comply with its obligations under the Project Agreement and the Convention; and (c) achieve the purposes of the Project.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works 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 equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the

Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 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 be equal to or exceed the equivalent of SDR 4,000,000.

2. Payments out of the 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 the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) 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 paragraph 4 of this Schedule for the payment or 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. 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 said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly 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;

(b) 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 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 the 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 the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the 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.

(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 paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

