

CONFORMED COPY

CREDIT NUMBER 3725-GY

Development Credit Agreement

(Poverty Reduction Support Credit)

between

CO-OPERATIVE REPUBLIC OF GUYANA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 21, 2003

CREDIT NUMBER 3725-GY

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 21, 2003, between the COOPERATIVE REPUBLIC OF GUYANA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated October 31 2002 (the Letter of Development Policy), describing a program of actions, objectives and policies designed to reduce poverty in the Borrower's territory (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 of this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) 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 provided for in Article II of this Agreement (the Credit) 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 October 6, 1999) with the modifications 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) “Bureau of Statistics” means the bureau of statistics of the Borrower within the Ministry of Finance;

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

(c) “Local Government Act” means the Local Government Act of the Borrower, dated December 4, 1945, as said Act has been amended to the date of this Agreement;

(d) “Ministry of Finance” means the Borrower’s Ministry of Finance;

(e) “Ministry of Health” means the Borrower’s Ministry of Health;

(f) “Ministry of Housing and Water” means the Borrower’s Ministry of Housing and Water;

(g) “Minister of Local Government and Regional Development” means the head of the Borrower’s Ministry of Local Government and Regional Development within the Borrower’s cabinet;

(h) “Municipal and District Councils Act” means the Municipal and District Councils Act of the Borrower, Act. No. 24 of 1969, as said Act has been amended to the date of this Agreement;

(i) “Office of the Auditor General” means the Borrower’s office of the auditor general;

(j) “PCPMU” means the Policy Coordination and Program Management Unit referred to in Section II. A. 1 of Schedule 2 to this Agreement;

(k) “PRSP” means Report No. 24172-GUA, the Poverty Reduction Strategy Paper for the Borrower discussed by the Board of the Association on September 19, 2002; and

(l) “PSCES” means the Borrower’s Parliamentary Sectoral Committee on Economic Services.

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 nine million one hundred thousand Special Drawing Rights (SDR 9,100,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) 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 Dollars 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 in 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 June 30, 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 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 June 15 and December 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 June 15 and December 15 commencing June 15, 2013 and ending December 15, 2042. Each installment to, and including the installment payable on, December 15, 2022 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 United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. 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, including any action specified in Schedule 2 to this Agreement.

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 events are specified:

(a) The Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program.

(b) An action has been taken or a policy has been adopted to reverse any action or policy under the Program in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.

(c) An action has been taken or a policy has been adopted to reverse any action listed in Schedule 2 to this Agreement.

ARTICLE V

Termination

Section 5.01. The date April 21, 2003 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 Finance of the Borrower 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:

Minister of Finance
Ministry of Finance
Main and Urquhart Streets,
Georgetown
Cooperative Republic of Guyana

Facsimile:
(592) 226-1284

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-
Washington, D.C.	64145 (MCI)	

6391

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

ASSOCIATION INTERNATIONAL DEVELOPMENT

By /s/ David de Ferranti

Regional Vice President
Latin America and the Caribbean

CO-OPERATIVE REPUBLIC OF GUYANA

By /s/ Odeen Ishmael

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 manufactured	-	Tobacco, (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: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) 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

I. Investments in Human Capital

A. Health -- HIV/AIDS

1. The formulation and approval by the Borrower's Cabinet Subcommittee on Health of a national strategic plan (covering the period 2002-2006) for reducing HIV/AIDS in Guyana.
2. The establishment of a program management secretariat within the Ministry of Health to coordinate the national strategic plan mentioned in A.1 above, including the appointment of the necessary core staff.

B. Education

1. The development of an action plan, including a monitoring and incentive mechanism, to reach the PRSP goals in terms of: (a) reduced repetition rates in primary schools; (b) increased enrolment in secondary schools; (c) reduced overcrowding of students; (d) reduced absenteeism of students and teachers; (e) increased recurrent expenditures excluding teachers' salaries; and (f) improvements in teacher training.
2. The design of a formula-based system for allocation of financial resources to schools; and in connection therewith, the selection of six pilot implementation sites.

II. Strengthening of Public Institutions and Improvement of Governance

A. Monitoring and Evaluation

1. The establishment of a new Policy Coordination and Program Management Unit (PCPMU) within the Borrower's Office of the President, headed by a coordinator, and consisting of: (a) a project coordination sub-unit; (b) a monitoring and evaluation sub-unit, staffed at least with the head of said sub-unit; and (c) a policy sub-unit, staffed at least with its head. Additionally, the commitment of the Borrower to staff the monitoring and evaluation sub-unit with a communications officer, a lead social scientist and two community facilitators by January 31, 2003.

2. The agreement by the Borrower's Presidential Secretariat to implement an overall monitoring and evaluation plan for the PRSP, including civil society participation.

3. The approval by the Borrower of a plan to strengthen the Bureau of Statistics.

B. Human Resources

1. The Borrower has reached an agreement with the International Monetary Fund on the maximum amount to be spent by the Borrower in public sector wages in the year 2002.

C. Procurement

1. The Procurement Act 2002 (Act No. 6 2002) was passed by the Borrower's National Assembly, assented to by the President and published in the Borrower's official gazette.
2. Circular No. 0802 dated August 16, 2002 regarding administrative procurement procedures has been issued by the Ministry of Finance.
3. The Borrower has established a National Procurement and Tender Administration (NPTA) within the Ministry of Finance

in accordance with the Procurement Act 2002 and has appointed the staff required for it to operate effectively.

D. Financial Management

1. The draft of the National Audit Act of Guyana 2002 was submitted to the Association for review.
2. The Borrower has committed to carry out a program to implement the findings of the financial accountability assessment of the Borrower carried out by the Association on June 6, 2002, including: (a) a program to strengthen the Office of the Auditor General, with respect to staffing, salaries and training; (b) the empowerment of the PSCES to oversee the public sector's financial management practices; (c) an analysis of ways to reduce discretionality in six government agencies; and (d) the steps to be taken to make more effective the Borrower's policy of disclosure of public officials' personal assets.

E. Local Government

1. The Borrower has completed the revaluation of immovable properties in the following municipalities: Anna Regina, Rose Hall, New Amsterdam and Corriverton.
2. The Minister of Local Government and Regional Development has issued the General Circular of October 10, 2002 to reactivate the provisions in the existing laws which allow the properties of defaulting tax payers to be sold at auction after due process has been observed (the Municipal and District Councils Act, Chapter 28:01 and the Local Government Act, Chapter 28:02).

III. Expansion and Improvement in the Provision of Basic Services

A. Water

1. The merger of the two existing water utilities, namely Georgetown Sewerage and Water Commissioners (GS&WC) and Guyana Water Authority, has been completed, and the resulting entity is Guyana Water Incorporated.
2. The Borrower has implemented a new legal and regulatory framework for the water sector, including the following actions: (a) the Water and Sewerage Act 2002 has been approved by the Parliament and has entered into effect; (b) the by-laws of Guyana Water Inc., have been approved by its board of directors and have entered into effect; and (c) the operating license effective as of November 13, 2002 for Guyana Water Incorporated has been issued by the Ministry of Housing and Water.
3. The Ministry of Housing and Water has established national water quality standards.
4. A preferred bidder for a management contract for a private operator of Guyana Water Incorporated has been selected, and an invitation to commence negotiations towards an agreement on the management contract with said preferred bidder has been issued by the Ministry of Housing and Water.
5. The tariffs for the water and sewerage service have been adjusted and the subsidy levels for 2002 have been agreed upon by the Borrower and the Association in the "Agreement on Future Tariffs for Guyana Water (and its predecessors)" dated December 14, 2001.

IV. Broad-Based, Job-Generating Economic Growth

A. Investment

1. An overall review of the Borrower's tax system and administration has been conducted with assistance from the International Monetary Fund, aiming at: (a) broadening the

tax base; (b) reducing tax rates; and (c) improving tax administration, including enhanced transparency in the application of the tax system to private investors.

2. The Borrower: (a) has conducted an assessment of the existing laws governing the mining sector to determine whether they provide adequate incentives for investors, as well as sufficient environmental protection; and (b) has started drafting revised legislation in the forestry sector to address deficiencies previously identified in this sector.

B. Sugar

1. The Borrower has conducted a full environmental impact assessment report for the proposed development of land for sugar-cane cultivation and the construction of a new sugar mill at Skeldon Sugar Estate, Berbice. The Borrower has committed to fully carry out the Environmental Management Plan contained in that report.
2. The Borrower has invited bids for the construction of the Skeldon sugar mill and has informed bidders of the environmental requirements as contained in said environmental impact assessment report. Furthermore, the Borrower has committed to a design for the mill that meets or exceeds local environmental regulations.
3. The Borrower has agreed with the Association on a three-year program to reduce the number of redundant workers and to limit salaries and bonuses of workers in the sugar sector.