

CONFORMED COPY

CREDIT NUMBER 3468 COM

Development Credit Agreement

(Infrastructure, Water and Environment Project)

between

ISLAMIC FEDERAL REPUBLIC OF THE COMOROS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 25, 2001

CREDIT NUMBER 3468 COM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 25, 2001, between ISLAMIC FEDERAL REPUBLIC OF THE COMOROS (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received a letter dated November 15, 2000, from the Borrower, describing therein a program of actions, objectives and policies designed to strengthen the Borrower's road and urban water sectors (hereinafter called the Program), and declaring therein the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to contract from the French Cooperation (FC) a grant (the FC Grant), in an amount equivalent to \$1,600,000, to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and FC; and

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

Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

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

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

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

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

(a) "CC" means Cellule de Coordination, the coordination unit established within DGI (as hereinafter defined), referred to in paragraph 2 (b) of Schedule 4 to this Agreement and which will be responsible for: (i) assisting DGI, particularly with the maintenance of the accounts and overall financial management of the Project; (ii) any procurement to be made under the Project; and (iii) general administration and technical coordination of the Project;

(b) "DGE" means Direction Générale de l'Environnement, the Borrower's General Directorate of Environment at the MPE (as hereinafter defined);

(c) "DGI" means Direction Générale des Infrastructures, the Borrower's General Directorate of Infrastructure within MEEU (as hereinafter defined), established and operating pursuant to the Borrower's Decree No.01-007/CE, dated January 20, 2001, as amended from time to time;

(d) "DRI" means Direction Régionale des Infrastructures, the Borrower's Regional Directorate of Infrastructure within MEEU (as hereinafter defined) established in each of the Grande Comore, Anjouan and Moheli islands, pursuant to Section 5.05 of this Agreement;

(e) "EIA" means Etude d'Impact sur l'Environnement, the one volume environmental assessment documentation for the Project, dated August 30, 2000, as the same may be amended from time to time, and such term includes any schedules to the EIA;

(f) "Eligible Categories" means categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(g) "Eligible Expenditures" means the expenditures for works, goods and

services referred to in Section 2.02 (a) of this Agreement;

(h) "FER" means Fonds d'Entretien Routier, the Borrower's Road Maintenance Fund, established and operating under the Borrower's laws and regulations pursuant to the Borrower's law No. 91-007 dated July 23, 1991 (the FER Law), and the Borrower's Arrêté No. 99-002/MEUH-CAB dated February 14, 1999 (the FER Arrêté), and referred to in Section 5.04 of this Agreement;

(i) "Financial Management Procedures Manual" means the manual outlining the administrative, financial and accounting procedures for the implementation of the Project, referred to in paragraph 3 of Schedule 4 to this Agreement and adopted pursuant to Section 7.01 (a) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Financial Management Procedures Manual;

(j) "Franc de la République Fédérale Islamique des Comores" or "KMF" means the currency of the Borrower;

(k) "MEEU" means Ministère de l'Équipement, de l'Énergie et de l'Urbanisme, the Borrower's Ministry of Equipment, Energy and Urbanism;

(l) "MMEMAP" means the mitigation measures and environmental management action plan for the Project as described in Parts IV and V of the EIA;

(m) "MPE" means Ministère de la Production et de l'Environnement, the Borrower's Ministry of Production and Environment;

(n) "Project Implementation Plan" means the manual setting out, inter alia, the procurement procedures, the cost recovery mechanisms, the institutional aspects, and other arrangements to be used for the purpose of implementing the Project, referred to in paragraph 3 of Schedule 4 to this Agreement and adopted pursuant to Section 7.01 (a) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Project Implementation Plan;

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

(p) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on June 2, 1997 and on behalf of the Borrower on June 16, 1997;

(q) "Project Year" means the twelve-month period beginning from the Effective Date and ending twelve months thereafter (the First Project Year), and any twelve-month period beginning at the end of the First Project Year, or the end of subsequent Project Years;

(r) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(s) "Steering Committee" means the multisector committee responsible for the general oversight of the carrying out of the Project referred to in paragraph 2 (b) of Schedule 4 to this Agreement, established and operating pursuant to the Borrower's Arrêté No. 01-0247/MEE/CAB, dated January 30, 2001, as amended from time to time.

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 eight million eight hundred thousand Special Drawing Rights (SDR 8,800,000).

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

financed out of the proceeds of the Credit.

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

Section 2.03. The Closing Date shall be 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 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 May 1 and November 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 May 1 and November 1 commencing May 1, 2011 and ending November 1, 2040. Each installment to and including the installment payable on November 1, 2020 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 French Republic is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

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

(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 and sustainability 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 a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A)

certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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 the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than 18 months from the Effective Date, 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, 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

Other Covenants

Section 5.01. (a) The Borrower shall cause the management of FER to maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition.

(b) The Borrower shall cause the management of FER to:

(i) have the records, accounts and financial statements of FER (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

Section 5.02. The Borrower shall carry out in a timely manner all actions required to be performed by it under the MMEMAP.

Section 5.03. The Borrower shall: (i) ensure that any private land needed for any works to be carried out under the Project shall be provided by the owner of such land in a voluntary manner, and in accordance with a memorandum of understanding, in form and substance satisfactory to the Association, to be entered into by the Borrower with the owner of such land; and (ii) not commence any works in locations where such land is needed until such memorandum of understanding has been concluded.

Section 5.04. The Borrower shall restructure FER and consequently take all measures necessary to amend or replace the FER Law and the FER Arrêté as necessary, in a manner satisfactory to the Association by December 31, 2001.

Section 5.05. The Borrower shall establish the DRIs in a manner, and with staff in adequate numbers and whose qualifications and experience are satisfactory to the Association by July 1, 2002.

Section 5.06. The Borrower shall take all measures to ensure that the financial provisions regarding the financing of FER and the cost recovery for the urban water sector under paragraph 4.2 of the Program are met in a manner satisfactory to the Association.

Section 5.07. (a) By October 15 of each year during the execution of the Project, the Borrower shall submit to the Association for its review and comment its three-year draft investment and maintenance program for the road sector.

(b) The Borrower shall, in preparing the final version of such program, take into due account the comments made by the Association.

(c) No investment estimated to cost the equivalent of \$500,000 or more shall be initiated during any fiscal year during the execution of the Project, unless such investment has been included in the respective investment and maintenance program referred to in subparagraph (a) above or it has been explicitly approved by the

Association.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out;

(b) any law or any other legal instrument enacted pursuant to Section 5.04 of this Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations of FER; and

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

(A) the right of the Borrower to withdraw the proceeds of the FC Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(B) The Borrower shall have been required to repay the FC Grant.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or repayment is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

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

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

ARTICLE VII

Effective Date; Termination

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

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

(b) the Borrower has appointed the financial auditors referred to in Sections 4.01 (b) and 5.01 (b) of this Agreement, in accordance with the provisions of Section II of Schedule 3 to this Agreement.

Section 7.02. The date ninety (90) days after the date of this Agreement is

hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance, Budget and Privatization
B.P. 324
Moroni
Islamic Federal Republic of the Comoros

Telex:	Facsimile:
245-MIEF-CAB KO	(269) 74-41-40

For the Association:

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

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

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

ISLAMIC FEDERAL REPUBLIC OF THE COMOROS

By /s/ Mohamoud Aboud

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

Category	Amount of the Credit Allocated (Expressed in Expenditures SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works for periodic road maintenance	95%	
(a) in Grande Comore and Moheli	2,700,000	
(b) in Anjouan	700,000	
(2) Water civil works		100%
(a) in Moheli	500,000	
(b) in Anjouan	1,600,000	
(3) Goods and equipment	400,000	100%
(4) Consultants' services, training and audits	1,700,000	100%
(5) Refunding of Project Preparation Advance	500,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(6) Unallocated	700,000	
TOTAL	8,800,000	

2. It is understood that the percentages in the table in paragraph 1 of this Schedule have been calculated on the basis of the provisions in the Borrower's Arrêté No. 0-238/MIFB/CAB dated January 6, 2001, which exempt the goods, equipment, supplies, works and services to be financed under the Credit from taxes and customs duties levied by the Borrower. If any change is made to said Arrêté which has the effect of levying taxes or customs duties on such goods, equipment, supplies, works or services, the percentages referred to above shall be decreased in accordance with the provisions of Section 5.08 of the General Conditions.

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) expenditures under Categories (1) (b) and (2) (b), unless the Association determines that it would be able to supervise the carrying out of the corresponding activities in Anjouan.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$25,000 equivalent each; (b) services under contracts costing less than \$25,000 equivalent each for consulting firms and less than \$15,000 equivalent each for individual consultants, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in KMF a special deposit account in the Banque Industrielle et Commerciale, on terms and conditions satisfactory to the

Association, including appropriate protection against set-off, seizure and attachment.

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

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

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

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

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

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

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

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

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

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

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

Association all or any portion of the funds on deposit in the Special Account.

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

Annex A to SCHEDULE 1

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

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount of KMF 300,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of KMF 150,000,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 500,000.

2. 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 in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

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

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

Annex B to SCHEDULE 1

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

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

the Credit Account under one or more of the Eligible Categories.

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

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed KMF 300,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) maintain road infrastructure and improve the safety of road transport; (ii) upgrade and expand urban water infrastructure and increase access to clear water for people living on the Anjouan and Moheli islands by 2005; and (iii) improve decentralized management of road transport and water supply.

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: Transport

1. Periodic maintenance on about 113, 43 and 25 km of paved roads in Grande Comore, Anjouan and Moheli, respectively, through, inter alia: (i) earthworks, including patch works, pothole repair, local reinforcement, single layer or double layer pavement, resurfacing of gravel roads, and resealing; (ii) maintenance and repair of road shoulders and drainage works; (iii) maintenance of the roadsides, including clearing of drainage structures and cleaning and reshaping ditches; and (iv) drainage improvement, including rehabilitation of drains and ditches and masonry works.

2. Improving road safety through the carrying out of civil works and the installation of traffic signals and signs.

3. Carrying out of a study of options for institutional setups for road maintenance.

4. Strengthening the management and technical capacities of DGI and DRIs regarding planning and programming of road maintenance, management of contracts and supervision of works, through the provision of technical advisory services.

5. Provision of technical advisory services for the strengthening of the technical capacity of FER.

Part B: Urban Water Supply

1. Rehabilitation and extension of urban water infrastructure in Moutsamoudou, Domoni and Ouani in Anjouan, and in Fomboni in Moheli.

2. Strengthening of management and technical capacities of DGI, DRIs, and the urban water utilities in Anjouan and Moheli.

3. Raising awareness, sensitization, sanitary education and consultation of communities in Anjouan and Moheli regarding the urban water supply strategy, decisions on Project issues, selection and management of a local private operator, and necessity to charge tariffs for water consumption, through the carrying out of communication campaigns through the media, and workshops, and the provision of technical advisory services.

Part C: Support to the Transport and the Urban Water Supply Sectors and Program

Coordination

1. Support to CC through the acquisition of computers and other office equipment.
2. Strengthening the technical capacity of DGI, DRIs and DGE through the carrying out of training programs for environmental assessment and management and monitoring of the MMEMAP.
3. Raising awareness of communities about the environmental issues regarding the Project through the publication of overviews regarding Project operations, and the carrying out of communication campaigns regarding these environmental issues.
4. Provision of technical advisory services for the financial management of the Project and FER, and the carrying out of financial audits of the Project and FER.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

1. Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines), and the provisions of the following Parts of this Section I.
2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of \$25,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$25,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$15,000 or more, the qualifications,

experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. Without limitation to the provisions of Section 5.02 of this Agreement, the Borrower shall:

(a) carry out the environmental training program for DGI and DGE described in the MMEMAP in a manner satisfactory to the Association;

(b) prepare specific requirements for environmental impact assessment and mitigation measures, satisfactory to the Association, with respect to all civil works to be carried out under the Project, and include these requirements in the bidding and contractual documentation regarding the implementation of such civil works; and

(c) carry out the public education, consultation and awareness program described in the MMEMAP.

2. The Borrower shall ensure that, at all times during the execution of the Project:

(a) the qualifications, experience and performance of the staff within DGI, DRIs, MEEU and FER, in charge directly or indirectly of the implementation of any parts of the Project, shall be satisfactory to the Association;

(b) FER, CC and the Steering Committee shall be maintained with functions, composition and staff with qualifications, experience and performance satisfactory to the Association;

(c) the relevant Ministries, Agencies and authorities (in particular, MPE and DGE) shall collaborate with DGI and DRIs in compliance with the provisions of the EIA and the Project Implementation Plan, in particular, with respect to the appointment of individuals whose qualifications, experience, position and performance are satisfactory to the Association, and who shall assist DGI and DRIs in ensuring proper implementation of the Project; and

(d) the proceeds of FER shall be used solely for the purposes of defraying the cost of expenditures incurred for road maintenance and rehabilitation operations in the territory of the Borrower.

3. Except as the Association shall otherwise agree, the Borrower shall: (i) apply criteria, policies, procedures and arrangements set out in the Project Implementation Plan and the Financial Management Procedures Manual; and (ii) not amend or waive, or permit to be amended or waived, the EIA, the Project Implementation Plan and the Financial Management Procedures 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.

4. The Borrower shall:

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

(b) cause DGI, commencing March 31, 2001, to prepare every three months progress reports on the implementation of the Project and furnish these reports to the Association within one month thereafter;

(c) not later than the end of the First Project Year, and not later than the end of each Project Year thereafter, or such later dates as the Association shall request, undertake, in conjunction with the Association and DGI, a joint annual review on all matters relating to the progress of the Project and, particularly, the progress achieved by the Borrower during the current Project Year, having regard to the performance indicators referred to in subparagraph (a) of this paragraph; and

(d) following each annual review, cause DGI to act promptly and diligently in order to take any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement such measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

5. Midterm Review

(a) On or about thirty months after the Effective Date, the Borrower shall carry out jointly with the Association and DGI a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review).

The Midterm Review shall cover, amongst other things:

- (i) progress made in meeting the Project's objectives;
- (ii) performance of the FER; and
- (iii) overall Project performance against Project performance indicators.

(b) The Borrower shall cause DGI to prepare, and at least four weeks prior to the Midterm Review, furnish to the Association, a separate report describing the status of implementation of each component of the Project and a summary report of Project implementation generally.

(c) The Borrower shall, not later than two weeks after the Midterm Review, cause DGI to prepare and submit to the Association an action program, acceptable to the Association, for the further implementation of the Project having regard to the findings of the Midterm Review and, thereafter, implement such action program.

