

CONFORMED COPY

CREDIT NUMBER 3738 CD

Development Credit Agreement

(Fifth Structural Adjustment Credit)

between

REPUBLIC OF CHAD

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 20, 2003

CREDIT NUMBER 3738 CD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 20, 2003, between REPUBLIC OF CHAD (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter, dated January 24, 2003 (hereinafter called the Letter of Development Policy), describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

“‘Project’ means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.”;

- (b) Section 4.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.”;

- (c) Section 5.01 is modified to read:

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

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

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

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

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

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

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

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

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

(d) “Euro” means the lawful common currency of member states of the European Union who adopt the single currency in accordance with the Treaty establishing the European Currency, as amended to date by the Treaty on European Union;

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

(f) “HS” means *Huilerie et Savonnerie*, a company established under the Borrower’s laws and regulations and operating pursuant to its by-laws dated November 27, 2001;

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

(h) “NGO” means a non governmental organization established and operating pursuant to the Laws of the Borrower;

(i) “SAC IV Program” means the program of actions, objectives and policies of the Borrower as defined in Whereas (A) of the Development Credit Agreement dated December 20, 2001 between the Borrower and the Association, for the Fourth Structural Adjustment Credit (SAC IV); and

(j) “SNBG” means *Stratégie Nationale de Bonne Gouvernance*, the Borrower’s National Strategy for Good Governance, adopted by HCI on August 28, 2002.

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 twenty nine million six hundred thousand Special Drawing Rights (SDR 29,600,000).

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

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central

bank, a deposit account in Euro on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

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

Section 2.03. The Closing Date shall be August 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 cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter, pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2013 and ending March 15, 2043. Each installment to and including the installment payable on March 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further

modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the French Republic is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

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

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

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, 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 event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower at the time responsible for planning, development and cooperation is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Planning, Development
and Cooperation
B.P. 286
N'Djamena
Republic of Chad

Telex:	Facsimile:
5329 KD	(235) 51 51 85
	(235) 52 00 87
	(235) 52 29 50

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS 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.

REPUBLIC OF CHAD

By /s/ Abdoulaye Beri
Authorized Representative

ASSOCIATION INTERNATIONAL DEVELOPMENT

By /s/ Ali M. Khadr
Acting Regional Vice President
Africa

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

1. Governance

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

(a) Preparation of a stakeholder seminar to discuss the implementation of the SAC IV Program;

(b) adoption of the SNBG by HCI and its discussion at a seminar with a wide set of stakeholders;

(c) satisfactory implementation of the SNGB as witnessed by: (i) the publication of critical reports by the Account Chamber (*Chambre des Comptes*) of the Supreme Court; (ii) completion of the operational and financial audit of the customs services and launching of a survey on users' perception of customs services; and (iii) development of an action plan for the definition of a policy on the public disclosure of information; and

(d) adoption of its rules of procedures (*règlement intérieur*) by CCSRP, publication of its annual report for 2001 as well as its first two quarterly reports for 2002, and preparation of the first draft of its manual of procedures.

2. Public Resource Management

In accordance with paragraphs 30, 33 and 36, respectively, of the Letter of Development Policy, the Borrower has furnished to the Association satisfactory evidence that the following actions have been carried out:

(a) Improving Preparation, Execution, Control, Monitoring and Audit of the Government Budget

(i) Execution of the non-salary operational budget for the Ministries of Education, Health and Public Works at 95 percent on a commitment basis at the end of fiscal year 2001;

(ii) completion under the direction of the Health and Education Public Expenditure Committees of the study to track expenditures from the central level to the basic health and education facilities, and preparation of the draft of an associated

action plan to improve the level of resources reaching the health and education facilities ;

- (iii) submission to Parliament of the Budget Settlement Law for fiscal year 2000 and transmission of the administrative and management accounts (*comptes administratifs et de gestion*) for fiscal year 2001 to the Account Chamber (*Chambre des Comptes*) of the Supreme Court;
- (iv) introduction of a monthly report on the execution of the budget distinguishing between commitment, order to pay and payment of expenditures, and distinguishing specifically the Ministries of Education, Health, Public Works and Justice; distribution of this report to the four Ministries; and
- (v) submission to Parliament of the draft law establishing a mechanism for paying a subsidy to community teachers.

(b) Improving the Efficiency and Transparency of Public Procurement

- (i) Modification of the articles of the Public Procurement Code referring to the procedure of limited bidding with a view to eliminating abuse of this procedure;
- (ii) finalization of a draft new Public Procurement Code including an independent procurement appeals system; and organization of a stakeholder seminar to discuss the draft Code;
- (iii) regular publication of a quarterly procurement bulletin;
- (iv) completion of an audit of the five biggest procurement contracts for 2001 and adoption of a methodology for the annual audit of procurement contracts as well as the procurement system; and
- (vi) launching of the recruitment of independent observers for the public procurement bid evaluation boards in the health and education sectors.

(c) Strengthening the Transparency and Accountability of the Civil Service

- (i) Promulgation of the new civil service status law introducing competitive recruitment and merit-based advancement;

- (ii) signature of the contract with the firm that will carry out the audit for 9 pilot Ministries covering operational, procedural and human resources aspects; and
- (iii) preparation by the Payroll Department of MFE of a quantitative overview of the salaries and staffing by Ministry.

3. Cotton Sector Reform

In accordance with paragraph 40 of the Letter of Development Policy, the Borrower has furnished to the Association satisfactory evidence that the following actions have been carried out:

- (a) Launching of the ex-ante poverty and social impact analysis;
- (b) launching of the bidding process for the privatization of HS; and
- (c) preparation of an action plan for the reduction of operating costs of Cotontchad to be implemented during the 2002-2003 cotton season, coupled with an assessment of the Controller General past mandate and a proposal to revise his terms of reference to accompany the implementation of the action plan.