

CONFORMED COPY

CREDIT NUMBER 1975 GM

(Enterprise Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

CENTRAL BANK OF THE GAMBIA

Dated January 18, 1989

PROJECT AGREEMENT

AGREEMENT, dated January 18, 1989, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and CENTRAL BANK OF THE GAMBIA (CBG).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Republic of the Gambia (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to seven million three hundred thousand Special Drawing Rights (SDR 7,300,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that CBG agrees to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a subsidiary financing and management agreement (the Subsidiary Financing and Management Agreement) to be entered into between the Borrower and CBG, part of the proceeds of the credit provided for under the Development Credit Agreement will be made available to CBG on terms and conditions to be set forth in the Subsidiary Financing and Management Agreement; and

WHEREAS CBG, in consideration of the Association's entering

into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### Definitions

Section 1.01. Unless the context otherwise requires, wherever used in this Agreement, the several terms defined in the Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

#### ARTICLE II

##### Execution of Part B of the Project; Management and Operations of CBG

Section 2.01. (a) CBG declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement and, to this end, shall carry out through the Participating Commercial Banks (PCBs) Part B of the Project and conduct its operations and affairs, in accordance with the CBG Act and the Statement of Policies and Procedures.

(b) CBG shall lend to each eligible PCB under an agreement (the Participating Agreement) to be entered into between CBG acting for the Borrower and each such PCB, on terms and conditions which shall have been approved by the Association, proceeds of the Credit made available to CBG under the Subsidiary Financing and Management Agreement. Each Participating Agreement shall include provisions requiring: (i) payment by the PCB of annual interest at a rate three percentage points below CBG's treasury bill discount rate; (ii) a composite amortization schedule based on the aggregate repayment Schedules of all Sub-loans made by the PCB; (iii) assumption of any foreign exchange risk by CBG on behalf of the Borrower for a fee satisfactory to the Association; (iv) any reschedulings of Sub-loans to be subject to CBG's prior approval; and (v) the submission to CBG by the PCB of semi-annual reports on the status of the respective SME Projects.

(c) CBG shall no later than one month commencing after the day of receipt of the semi-annual reports furnished it under paragraph (b) (v) of this Section, prepare and furnish to the Project Coordinating Committee (PCC) and to the Association a summary of the said semi-annual reports.

(d) CBG shall establish and thereafter maintain an apex unit (CBG's Apex Unit) in a form and with functions and staffing, satisfactory to the Association. CBG's Apex Unit shall: (i) be responsible for managing and administering Sub-loans under the Project; and (ii) be headed by a person with qualifications and experience satisfactory to the Association.

Section 2.02. (a) CBG undertakes that, unless the Association shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

(b) CBG shall exercise its rights in relation to each SME Project in such manner as to: (i) protect the interests of the Borrower, the Association and of CBG; and (ii) comply with its obligations under this Agreement, the Subsidiary Financing and Management Agreement and the Participating Agreements.

Section 2.03. CBG shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement and Part B of the Project.

Section 2.04. CBG shall duly perform all its obligations under the Subsidiary Financing and Management Agreement. Except as the Association shall otherwise agree, CBG shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Financing and Management Agreement or any provision thereof.

Section 2.05. (a) CBG shall, at the request of the Association, exchange views with the Association with regard to the progress of Part B of the Project, the performance of its obligations under this Agreement and under the Subsidiary Financing and Management Agreement, and other matters relating to the purposes of the Credit.

(b) CBG shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part B of the Project, the accomplishment of the purposes of the Credit, or the performance by CBG of its obligations under this Agreement and under the Subsidiary Financing and Management Agreement.

### Article III

#### Financial Covenants

Section 3.01. (a) CBG shall maintain procedures and records adequate to monitor and record the progress of Part B of the Project and of each SME Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of CBG.

(b) CBG shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles 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 its financial statements for such year as so audited, and (B) the 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 said records, accounts and financial statements as well as the audit thereof as the Association shall from time to time reasonably request.

### ARTICLE IV

#### Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of CBG thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate; or

(ii) a date 20 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify CBG of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

##### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

For CBG:

Central Bank of The Gambia  
1-2 Buckle Street  
Banjul  
The Gambia

Cable address

GAMBANK GV  
Banjul, The Gambia

Telex:

2218

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of CBG or by CBG on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Governor, or by such other person or persons as CBG shall designate in writing, and CBG shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael J. Gillette  
Acting Regional Vice President  
Africa

CENTRAL BANK OF THE GAMBIA

By /s/ Ousman A. Sallah  
Authorized Representative

SCHEDULE 1

Procedures and Terms and  
Conditions for Sub-loans

A. Procedures for Sub-loan Processing and Administration

Each PCB shall have final responsibility for deciding whether or not a request for a Sub-loan should be approved. CBG shall, in its review of any such request, determine whether or not the SME Project for which the Sub-loan is requested qualifies for financing under the Credit. Each PCB shall send through CBG to the Association for its approval the first three requests for Sub-loans approved by the PCB. A Sub-loan shall not be made in an amount exceeding \$300,000 equivalent. Each SME shall make an equity contribution of at least 25% to the total project cost of an SME Project. A PCB may lend from its own resources up to 15% of such total costs.

B. Eligibility, Financial and Economic Valuation Criteria for SMEs

1. In deciding the eligibility of an SME for a Sub-loan a PCB shall apply the following criteria:

(a) the SME requesting a Sub-loan must be in the private sector (with at least 51% private ownership), it must be engaged in productive activities other than trade, real estate and subsistence agriculture, but including horticulture and poultry, and it must demonstrate a creditworthiness status;

(b) the purpose of a Sub-loan request for working capital must not be to finance recurrent expenditures; and

(c) the SME Project must be shown to be financially and economically viable.

2. All requests for Sub-loans must be evaluated in terms of the ability of the SME concerned to generate sufficient cash flows to meet Sub-loan repayments and other debt obligations. For an SME to be considered financially viable, it must be shown to have a debt to equity ratio of not more than 3:1, a debt service coverage ratio of at least 1.5 and a current ratio of at least 1.2, said ratios being determined in accordance with methods of calculation satisfactory to the Association. The financial rate of return of any SME Project for which a Sub-loan exceeding \$50,000 equivalent for fixed investments is requested should exceed the cost of borrowing as determined at the time of appraising the SME Project.

3. (a) For all requests for Sub-loans in an amount equivalent to \$100,000 or less, PCBs shall be required to assess whether the SME Projects concerned would improve quality, price competitiveness or production of goods and services for which demand has been established. PCBs shall also calculate simple economic indicators, such as expected impact on employment and fixed cost per job created, foreign exchange earnings or savings and use of

raw materials of local origin.

(b) Each Sub-loan request in an amount exceeding \$100,000 equivalent shall be subjected to a detailed economic evaluation, including a calculation (in accordance with a method of calculation satisfactory to the Association) of its economic rate of return. The economic rate of return should exceed 10%.

### C. Terms and Conditions

1. Repayment of principal of a Sub-loan shall: (i) in the case of a Sub-loan to finance fixed investment and permanent working capital, be made in not less than 3 years nor more than 12 years (inclusive of an appropriate grace period); and (ii) in the case of a Sub-loan for free-standing working capital, be made in not less than 1 year nor more than 3 years (inclusive of a grace period of less than 1 year).

2. Interest payable by SMEs on Sub-loans shall be market determined.

3. No expenditures for goods or services required for an SME Project shall be eligible for financing out of the proceeds of the Credit unless:

(a) the Sub-loan for such SME Project shall have been approved by the Association and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the application and information required under paragraph 4 (a) of this Part in respect of such Sub-loan; or

(b) the Sub-loan for the SME Project shall have been a free-limit Sub-loan for which the Association has authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the request and information required under paragraph 4 (b) of this Part in respect of such free-limit Sub-loan. For the purposes of the Development Credit Agreement and this Agreement, a free-limit Sub-loan shall be: (i) a Sub-loan made by a PCB after the first three Sub-loans made by the PCB; and (ii) a Sub-loan in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum of: (i) \$150,000 equivalent in the case of an SME when added to any other outstanding amounts financed or proposed to be financed out of a Sub-loan made to the SME; or (ii) \$5,000,000 equivalent, when added to all other free-limit Sub-loans made or proposed to be made to the SME concerned, the foregoing amounts being subject to change from time to time as determined by the Association.

4. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Association for approval, CBG shall furnish to the Association an application, in form satisfactory to the Association, together with: (i) a description of the SME and an appraisal of the SME Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) such other information as the Association shall reasonably request.

(b) Each request by CBG for authorization to make withdrawals from the Credit Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the SME, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Association on or before December 31, 1992.

5. Sub-loans shall be made on terms whereby a PCB shall obtain, by written contract with the SME concerned or by other appropriate legal means, rights adequate to protect the interests of the Borrower, CBG, the Association and the PCB, including, in the case of any Sub-loan, the right to:

(a) require the SME to carry out and operate the SME Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards, and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Sub-loan shall be purchased at a reasonable price, account being taken also of other relevant factors, such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them, and (ii) such goods and services shall be used exclusively in the carrying out of the SME Project;

(c) inspect, by itself or jointly with representatives of the CBG and the Association (if the CBG or the Association shall so request), such goods, works, plants and construction included in the SME Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the SME concerned shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Sub-loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the SME to replace or repair such goods;

(e) require that the SME concerned shall: (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, (ii) have its records, accounts and financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association, (iii) in the case of a Sub-loan in an amount equivalent to \$100,000 or more, furnish to the PCB as soon as available but not later than six months after the end of each such year, the audit report on the overall annual financial statements and position of the SME in a form satisfactory to the Association, and (iv) in the case of a Sub-loan in an amount equivalent to less than \$100,000, allow the PCB: (A) to inspect the annual financial statements and position of the SME, and (B) to retain records of the annual financial statements (whether or not audited) of the SME and make such records available to the CBG for its review;

(f) obtain all such information as the Association, CBG or the PCB shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the SME and to the benefits to be derived from the SME Project; and

(g) suspend or terminate the right of the SME to the use of the proceeds of the Sub-loan upon failure by the SME to perform its obligations under its contract with the PCB.

