

CONFORMED COPY

CREDIT NUMBER 3874 BU

Development Credit Agreement

(Road Sector Development Project)

between

REPUBLIC OF BURUNDI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 2 , 2004

CONFORMED COPY

CREDIT NUMBER 3874 BU

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 2 ,2004, between REPUBLIC OF BURUNDI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated February 13, 2004, describing a program designed to contribute to the post-conflict revival of the Borrower through restoration of part of the primary road network, generation of employment for the rural poor, and improvement of institutional capacity in the road sector (the Program) and declaring the Borrower's commitment to the execution of such Program;

(B) 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; 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) (the General Conditions), constitute an integral part of this Agreement.

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

- (a) “Burundian Francs” or “BIF” means the currency of the Borrower;
- (b) “Community Development Association” or “ACD” means an association operating as such under Burundian law, each responsible for maintaining 25-30 km of road under Part C.1 of the Project;
- (c) “Eligible Categories” means Categories (1), (2) (a) and (b), (3), and (5) set forth in Part A.1 of Schedule 1 to this Agreement in respect of Special Account A (as hereinafter defined), and Category (2) (c) and (d) set forth in Part A.1 of Schedule 1 to this Agreement in respect of Special Account B;
- (d) “Eligible Expenditures” means the expenditures for goods, works, and consultants’ services referred to in Section 2.02 (a) of this Agreement;
- (e) “Environmental and Social Framework” or “ESF” means the framework, dated July 3, 2003, in form and substance satisfactory to the Association, describing measures for the mitigation of the potential environmental and social impact of the Project, as the same may be updated from time to time with the approval of the Association, used as the basis for preparation of the Environmental and Social Management Plan (as hereinafter defined);
- (f) “Environmental and Social Management Plan” or “ESMP” means the plan, in form and substance satisfactory to the Association, contained in the Project Implementation Manual (as hereinafter defined) and outlining measures for the mitigation of the potential environmental and social impact of the Project, as the same may be amended from time to time with the concurrence of the Association, and such term includes any schedules to the ESMP;
- (g) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;
- (h) “Fiscal Year” or “FY” means the Borrower’s fiscal year, which runs from January 1 through December 31 of the same year;
- (i) “Manual of Financing and Accounting Procedures” or “MFAP” means the manual, in form and substance satisfactory to the Association, contained in the Project Implementation Manual (as hereinafter defined) and outlining the financial and accounting procedures, policies, and guidelines to be followed by the Borrower in Project implementation, as the same may be amended from time to time with the concurrence of the Association, and such term includes any schedules to the MFAP;

(j) “Ministry of Public Works and Equipment” or “MTPE” means the ministry of the Borrower responsible for policy formulation, sector coordination, and strategic planning in relation to classified road infrastructure development and management;

(k) “National Institute for Statistics and Economic Studies” or “ISTEEBU” means the agency of the Borrower responsible for national statistics and economic analysis;

(l) “National Public Works Laboratory” or “LNBTP” means the agency of the Borrower located within the MTPE and responsible for execution of technical and geo-technical studies associated with road works;

(m) “National Roads Agency” or “OdR” means the agency of the Borrower located within the MTPE and responsible for road planning and supervision;

(n) “National Roads Fund” or “FRN” means the agency of the Borrower responsible for financing of road maintenance works;

(o) “Project Implementation Manual” or “PIM” means the manual adopted by the Borrower pursuant to Section 6.01 (b) of this Agreement, and containing details of financial and accounting procedures, procurement arrangements, environmental and social monitoring and mitigation arrangements, and other administrative and organizational arrangements, as shall have been agreed with the Association for purposes of Project implementation, as the same may be amended from time to time, and such term includes any schedules to the PIM;

(p) “Project Management Unit” or “PMU” means the unit established within the OdR in accordance with the provisions of Section 6.01 (a) of this Agreement and whose role and functions are described in Paragraph 5 of Schedule 4 to this Agreement;

(q) “Project Preparation Advances” means the project preparation advances granted by the Association to the Borrower pursuant to the Letter Agreements signed on behalf of the Association on November 5, 1999 and October 2, 2000, respectively, and on behalf of the Borrower on November 18, 1999 and October 10, 2000, respectively;

(r) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.6 of Schedule 1 to this Agreement;

(s) “Revolving Fund Account” or “RFA” means the account referred to in Section 3.04 of this Agreement;

(t) “Road Equipment Leasing Agency” or “ALM” means the agency of the Borrower responsible for management of road maintenance equipment;

(u) “Small and Medium Enterprise” or “SME” means an enterprise operating as such under Burundian law, responsible for carrying out mechanized works under Part C.2 of the Project;

(v) “Special Accounts” (A and B) means the accounts referred to in Part B.1 of Schedule 1 to this Agreement; and

(w) “Special Procurement Commission” means the entity established within the OdR by the Borrower pursuant to Ministerial Ordinance No. 540/1432 of October 16, 2003, as modified by Ministerial Ordinance No. 540/35 of January 27, 2004, and responsible for procurement, and whose role and functions under the Project are described in Paragraph 8 of Schedule 4 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirty four million three hundred thousand Special Drawing Rights (SDR 34,300,000).

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 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 Advances withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The un-withdrawn balance of the authorized amount of the Project Preparation Advances shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2009 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 (60) 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 March 1 and September 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 March 1 and September 1 commencing September 1, 2014, and ending March 1, 2044. Each installment to and including the installment payable on March 1, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for

Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through the OdR, with due diligence and efficiency and in conformity with appropriate technical, engineering, environmental, social, financial, and administrative

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 designed to ensure the continued achievement of the Project's objectives; and

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

Section 3.04. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the Borrower shall for purposes of holding ACD wage retentions to be used for restocking of tools under Part C.1 of the Project:

(a) open and thereafter maintain in BIF, until completion of the Project, the RFA in a commercial bank, under terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment;

(b) deposit into the RFA ACD wage retentions corresponding to the cost of the initial stock of tools financed under Part C.1 of the Project; and

(c) ensure that the funds deposited into the RFA in accordance with Paragraph (b) of this Section shall be used exclusively to finance restocking of tools under Part C.1 of the Project.

Section 3.05. The Borrower shall:

(a) By December 31, 2004, recruit, in accordance with the provisions of Section II of Schedule 3 to this Agreement, a firm of qualified auditors with terms of reference satisfactory to the Association for purposes of the audit referred to in Section 4.01 (b) (i) of this Agreement;

(b) By December 31, 2006, make a decision, in form and substance satisfactory to the Association, as to privatization of ALM and LBNTTP and lifting of the monopoly enjoyed by LBNTTP in respect of the execution of geo-technical studies associated with road works;

(c) By December 31, 2006, conclude performance contracts, in form and substance satisfactory to the Association, with the OdR and FRN for purposes of Program implementation; and

(d) By December 31, 2007, raise road user fees accruing to FRN for road maintenance from the current level of \$0.2 to a minimum of \$0.8 per liter of gas consumed in the territory of the Borrower.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each Fiscal Year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the

Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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 reports referred to in Part A.6 of Schedule 1 to this Agreement (Report-Based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, 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;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section C of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association an FMR, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said

report, and explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. 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 VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) The Borrower has established a PMU, with key staff, within the OdR, on terms and conditions satisfactory to the Association; and

(b) The Borrower has adopted the PIM, including the MFAP and ESMP, both in form and substance satisfactory to the Association, and has established an integrated project management system, in form and substance satisfactory to the Association.

Section 6.02. 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.

Section 6.03. The obligations of the Borrower under Section 4.01 of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date fifteen (15) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
Bujumbura
Burundi

Facsimile: (257) 223 827

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 BURUNDI

By /s/ Antoine Ntamobwa

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Emmanuel Mbi

Authorized Representative

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods:		100%
(a) ALM / LNBTP	510,000	
(b) OdR / MTPE	250,000	
(2) Works:		100%
(a) Part A	14,920,000	
(b) Part B	4,910,000	
(c) Part C.1	810,000	
(d) Part C.2	2,190,000	
(3) Services		
(a) Consultants' services	4,730,000	100%
(b) Audits	360,000	100%
(c) Training	130,000	100%
(4) Refunding of Project Preparation Advances	670,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(5) Incremental operating costs	760,000	100%
(6) Unallocated	4,060,000	
TOTAL	<u>34,300,000</u>	

2. For the purposes of this Schedule:

the term “incremental operating costs” means the incremental expenses incurred by the PMU on account of Project implementation, management and monitoring, including office space rental and utilities, office supplies, bank charges, communications, vehicle operation, maintenance and insurance, building and equipment maintenance costs, travel and supervision costs, and salaries of supporting staff, but excluding salaries of officials of the Borrower’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement; and

(b) under Category (1) (a) of Part A.1 of this Schedule, unless the Borrower has made a decision, in form and substance satisfactory to the Association, as to privatization of ALM and LNBTP and lifting of the monopoly enjoyed by LBNTTP in respect of the execution of geo-technical studies associated with road works.

4. It is understood that the percentages in the table in Part A.1 of this Schedule have been calculated on the basis of the provisions of the letter from the Borrower’s Minister of Finance to the Association, dated January 26, 2004, which exempt the goods, works and services to be financed under the Project from taxes and customs duties levied by the Borrower. If any change is made to said letter which has the effect of levying taxes or customs duties on such goods, works or services, the percentages referred to above shall be decreased in accordance with the provisions of Section 5.08 of the General Conditions.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$250,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms costing less than \$100,000 equivalent per contract; (e) training not subject to contract; and (f) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

6. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-Based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has

been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Accounts

1. The Borrower may, for the purposes of Categories (1), (2) (a) and (b), (3), and (5) set forth in Part A.1 of this Schedule, open and maintain in US Dollars a separate special deposit account (Special Account A) in its Central Bank, on terms and conditions satisfactory to the Association. The Borrower may, for the purposes of Category (2) (c) and (d) set forth in Part A.1 of this Schedule, open and maintain in US Dollars a separate special deposit account (Special Account B) in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

2. The Borrower shall, within three (3) months of the Effective Date, take steps, in form and substance satisfactory to the Association, to ensure rapid disbursement from Special Account A. Failing this, the Borrower shall promptly move Special Account A to a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

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

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.6 of this Schedule 1 adequately provide the information required for Report-Based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures 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 respective Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-Based Disbursements.

6. The Association shall not be required to make further deposits into the respective Special Account in accordance with the provisions of Part B.3 of this Schedule if, at any time, the Association shall have notified the Borrower and the Guarantor 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 respective Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

7. (a) If the Association determines at any time that any payment out of the respective 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 respective 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 respective 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 respective 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 respective Special Account.

(d) Refunds to the Association made pursuant to subparagraph (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 this Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-Based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$2,700,000 equivalent and the amount of \$500,000 equivalent to be withdrawn from the Credit Account and deposited into Special Account A and Special Account B respectively, 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 equivalent to \$1,350,000 and an amount equivalent to \$250,000 for Special Account A and Special Account B respectively, until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,700,000 and SDR 500,000 for Special Account A and Special Account B respectively.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposit into the respective 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 respective 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 respective Special Account for Eligible Expenditures. Each such deposit into the respective 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 respective Special Account, once the total un-withdrawn 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 un-withdrawn 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 respective 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
Report-Based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the respective Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the respective Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. 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 respective 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 reports referred to in Part A.6 of this Schedule 1 applicable to such withdrawal application accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

3. The Association shall not be required to make further deposits into the respective Special Account, once the total un-withdrawn 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 un-withdrawn 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 respective Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

SCHEDULE 2

Description of the Project

The objective of the Project is to contribute to the post-conflict revival of the Borrower through restoration of part of the priority road network, generation of employment for the rural poor, and improvement of institutional capacity in the road sector.

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:

A. Rehabilitation of Paved Classified Roads

Provision of financial and technical support for rehabilitation of part of paved primary roads, comprising:

1. Rehabilitation of 161.8 km of National Roads 3, 4, and 10, linking major cities, production areas and neighboring countries, and including protection works on River Rusizi embankments; and
2. Spot repairs on National Roads 1, 5, and 7, linking Bujumbura with the rest of the territory of the Borrower.

B. Rehabilitation of Unpaved Classified Roads

Provision of financial and technical support for rehabilitation of 350 km of unpaved secondary and communal roads, principally in areas of agricultural production in the territory of the Borrower.

C. Road Maintenance and Management

1. Provision of financial and technical support for implementation of three-year pilot program of labor-intensive routine road maintenance and management by ACDs, on 600 km of paved primary roads, 700 km of unpaved secondary roads, and 200 km of unpaved communal roads;

2. Provision of financial and technical support for implementation of three-year program of mechanized routine road maintenance by local SMEs, on 600 km of paved primary roads and 700 km of unpaved secondary roads;

3. Provision of 600 road maintenance kits and 60 bicycles to members of 60 ACDs, and three (3) motorcycles to local consultants for routine road maintenance supervision;

4. Provision of spare parts for road maintenance equipment to ALM, laboratory equipment to LNBTP, information technology equipment to the OdR and MTPE, and vehicles to the OdR for Project implementation oversight and road condition surveys;

5. Provision of financial and technical support for identification, counseling, and training of ACDs responsible for routine road maintenance and management in respect of HIV / AIDS prevention, including for counseling of roadside communities and road workers; and

6. Provision of consultant services for supervision of routine road maintenance executed by ACDs and SMEs.

D. Sector Management and Institutional Strengthening

Provision of financial and technical support to agencies involved in road sector, specifically in relation to the following:

1. Establishment of monitoring and evaluation system within the OdR and MTPE for road sector planning and supervision of private-sector-led road works;

2. Implementation of Borrower's divestiture program with of ALM and LNBTP, and preparation of performance contracts with the OdR and FRN;

3. Implementation of national road sector policy and development of regional transport sector dialogue; and

4. Training of staff of the OdR and MTPE in road planning and analysis and road works execution and management, and of SMEs in road contract management.

E. Project Management Support

Provision of financial and technical support to agencies involved in Project implementation and monitoring and evaluation, including:

1. In relation to Project financial and procurement management, Project technical and financial audits, and Project monitoring and evaluation;
2. Incremental operating costs associated with Project implementation; and
3. Vehicle for logistics of Project implementation.

* * *

The Project is expected to be completed by June 30, 2009.

SCHEDULE 3

Procurement

I. Procurement of Goods and Works

A. General

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 following provisions of Section I of this Schedule.

B. International Competitive Bidding

1. 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.

2. The following provision shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient and works to be carried out by domestic contractors.

C. Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, and works estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$4,770,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Works required for emergency maintenance of classified roads under Part C of the Project, up to an aggregate amount not to exceed \$1,000,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement from UN Agencies

Goods, including vehicles, motorcycles, and computers, up to an aggregate amount not to exceed \$250,000 equivalent, may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Community Participation

Goods and works required under Part C of the Project may be procured in accordance with the provisions of paragraph 3.15 of the Guidelines and shall be procured in accordance with procedures acceptable to the Association.

6. Procurement of Small Works

Works estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$1,220,000 equivalent, may be procured under lump-

sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

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: (i) each contract for goods estimated to cost \$250,000 equivalent or more; (ii) the first three contracts for goods estimated to cost \$30,000 equivalent or more; (iii) each contract for works estimated to cost \$500,000 equivalent or more; and (iv) the first three contracts for works estimated to cost \$30,000 equivalent or less, 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.

II. Employment of Consultants

A. General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1

of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

C. Other Procedures for the Selection of Consultants

1. Least-cost Selection

Consultants' services for financial and technical audits estimated to cost less than \$75,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Consultants' services estimated to cost less than \$75,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for: (a) tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (b) tasks under Parts C, D.1, and E of the Project may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

D. Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost \$50,000 equivalent or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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

A. Overall Project Oversight and Implementation Arrangements

1. Except as the Association shall otherwise agree, the Borrower shall: (a) apply the criteria, policies, procedures, and arrangements set out in the PIM; and (b) not amend or waive, or permit to be amended or waived, the PIM or any provision thereto, in a manner which, in the opinion of the Association, may materially and adversely affect Project implementation.
2. The OdR shall be responsible for overall implementation and oversight of the Project in accordance with the provisions of this Agreement and the PIM, except for Part D.1 and 2 of the Project, implementation of which in accordance with the provisions of this Agreement and the PIM shall be the responsibility of the Planning Unit of the MTPE, which unit shall be created and to which staff shall be assigned with qualifications and experience satisfactory to the Association.
3. The Borrower shall maintain, within the OdR at all times during Project implementation, the PMU in form and with functions satisfactory to the Association, and appoint thereto staff having experience and qualifications satisfactory to the Association.
4. The PMU shall be headed by a manager who shall report to the General Director of the OdR and who shall be assisted by a Financial Management Specialist, a Procurement Specialist, and a Budget Officer. The Financial Management Specialist shall head the Accounting Unit and be assisted by a Chief Accountant and an Assistant Accountant.
5. The PMU shall be responsible for the financial management of the Project in accordance with the provisions of this Agreement and the PIM, except for Part C.1 and 2 of the Project, financial management of which in accordance with the provisions of this Agreement and the PIM shall be the responsibility of the FRN. The PMU shall be responsible for the financial reporting, including internal controls, of the Project in accordance with the provisions of this Agreement and the PIM. The PMU shall ensure that Project activities, activity reports, financial and audit reports, and legal covenants are delivered in a timely manner and in accordance with the provisions of this Agreement and the PIM.
6. The Department of Planning of the OdR shall be responsible for preparation of design studies, bidding documents, and Project technical audits, to be carried out in accordance with the provisions of this Agreement and the PIM. It shall collaborate with

the Planning Unit of the MTPE and be assisted by ISTEERU in generating data relating to road sector indicators, to be carried out in accordance with the provisions of this Agreement and the PIM. The Department of Planning of the OdR shall review and approve all road design reports and invoices relating to studies financed under the Project, to be carried out in accordance with the provisions of this Agreement and the PIM.

7. The Department of Works of the OdR shall be responsible for oversight of implementation of works, including periodic maintenance works under Part C of the Project, in accordance with the provisions of this Agreement and the PIM. It shall review and approve all invoices relating to works under the Project in accordance with the provisions of this Agreement and the PIM.

8. The Special Procurement Commission, headed by the General Director of the OdR and assisted by the PMU, shall be responsible for Project procurement in accordance with the provisions of this Agreement and the PIM.

9. The General Director of the OdR, assisted by the Coordination Support Unit of the OdR, shall be responsible for coordination and timely delivery of Project activities, activity reports, financial and audit reports, and legal covenants, to be carried out in accordance with the provisions of this Agreement and the PIM.

B. Safeguard Policies

1. The Borrower shall ensure that the Project is implemented in accordance with the provisions of the ESF, and except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of the aforementioned if such amendment or waiver may, in the opinion of the Association, materially or adversely affect Project implementation.

2. The Environment and Standards Service of the OdR shall oversee preparation and implementation of the ESMP under the Project in accordance with the provisions of this Agreement and the PIM.

C. Monitoring and Evaluation

Semi-Annual Audits

1. Without limitation upon the Borrower's obligations with respect to auditing of Project accounts set forth in Section 4.01 (b) of this Agreement, the Borrower shall, for a period of twenty-four (24) months commencing the Effective Date, have the financial

statements referred to in Section 4.01 (a) of this Agreement and the records and accounts for the Special Accounts for each period of six (6) months (or other period agreed to by the Association), commencing the Effective Date, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association.

Annual Work Plans and Budgets

2. The Borrower shall furnish to the Association as soon as available, but in any case not later than October 15 of each year, the annual work plan and budget for each subsequent Fiscal Year following FY 2004, of such scope and in such detail as the Association shall have reasonably requested, with confirmation of availability of the Borrower's contribution for expenditures under the Project for that Fiscal Year.

Annual Reviews

3. The Borrower shall:

(a) put in place and maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set out in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) submit to the Association, no later than three (3) months after the close of each Fiscal Year, commencing FY 2005, an annual report reviewing the progress in Project implementation during the previous year, having regard to the indicators referred to in paragraph (a) of this Section; and

(c) following the submission of each annual report, act promptly and diligently to take any corrective action agreed with the Association to remedy any shortcomings identified in Project implementation, in furtherance of the objectives of the Project.

Midterm Review

4. The Borrower shall:

(a) carry out jointly with the Association, no later than December 31, 2006, a mid-term review to assess the status of Project implementation, as measured against the project development indicators referred to in Paragraph (a) of Section 3. Such review shall include an assessment of the following: (i) overall progress in the implementation of

the Project; (ii) results of monitoring and evaluation activities; and (iii) progress on procurement and disbursements. Such review shall also make adjustments to the Project and reallocate funds to improve performance, if needed;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, three (3) months before such review, a report, in scope and detail satisfactory to the Association, needed to undertake the review, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section on the progress achieved in the carrying out of the Project during the period preceding the date of the said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review, jointly with the Association, the report referred to in Paragraph (b) of this Section and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Performance Indicators

1. International Competitive Bidding for procurement of goods and works under the Project and Quality- and Cost-Based Selection for procurement of consultants' services under the Project are completed by the Special Procurement Commission in no more than 24 weeks (Benchmark at Midterm Review: 32 weeks);
 2. The maximum time period between receipt by the PMU of invoices from local contractors and service providers for expenditures under the Project and payment of such invoices through the respective Special Account is 15 days (Benchmark at Midterm Review: 20 days);
 3. At least 30% of ACD members are female (Benchmark at Midterm Review: 15%);
 4. At least 95% of ACD members have received counseling relating to HIV / AIDS prevention (Benchmark at Midterm Review: 30%);
 5. At least 16% of paved classified roads in the territory of the Borrower have been rehabilitated by Project completion (Benchmark at Midterm Review: 7%);
 6. At least 14% of secondary and communal earth roads in the territory of the Borrower have been rehabilitated by Project completion (Benchmark at Midterm Review: 5%);
 7. At least 25% of classified roads in the territory of the Borrower are regularly maintained by ACDs and SMEs (Benchmark at Midterm Review: 10%); and
 8. A monitoring and evaluation system is fully functional in the OdR and MTPE (Benchmark at Midterm Review: A computerized monitoring and evaluation system is in place in both agencies).
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