

CONFORMED COPY

CREDIT NUMBER 2632 COM

Development Credit Agreement

(Small Enterprise Development Project)

between

ISLAMIC FEDERAL REPUBLIC OF THE COMOROS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 27, 1994

CREDIT NUMBER 2632 COM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 27, 1994, between ISLAMIC FEDERAL REPUBLIC OF THE COMOROS (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower has issued a sectoral policy statement, dated May 30, 1994, describing a program of actions, objectives and policies designed to achieve an adjustment of the Borrower's small-scale enterprise sub-sector (hereinafter referred to as "the Program");

(B) the Borrower has declared its commitment to the execution of the Program and, 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;

(C) Part A of the Project will be carried out by Participating Financial Intermediaries (as hereinafter defined) and, to this end, the Borrower intends to reach agreement with one or more such eligible Financial Intermediaries; and

(D) Parts D.1 and D.2 of the Project will be carried out by the Centre d'Appui au Secteur Prive (CASP), with the Borrower's assistance and, as part of such assistance, the Borrower will make available to CASP a portion of the proceeds of the Credit as provided in this Agreement;

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, with the last sentence of Section 3.02 deleted (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "BDC" means Banque de Developpement des Comores;
- (b) "BIC" means Banque pour l'Industrie et le Commerce;
- (c) "CASP Grant Agreement" means the agreement between the Borrower and CASP, referred to in Section 3.04 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the CASP Grant Agreement;
- (d) "Commission" means the Law Reform Commission referred to in paragraph 6 (a) of Schedule 4 to this Agreement;
- (e) "eligible Financial Intermediary" means a Financial Intermediary which has been declared to be eligible to participate in the execution of Part A of the Project on the ground that it satisfies the relevant eligibility criteria for purposes of the Project;
- (f) "Law Reform Coordinator" means the Law Reform Coordinator referred to in paragraph 7 (a) of Schedule 4 to this Agreement;
- (g) "MFB" means the Ministere des Finances et du Budget of the Borrower;
- (h) "MJ" means the Ministere de la Justice of the Borrower;
- (i) "Participating Agreement" has the same meaning as in Section 3.04 (a) of this Agreement;
- (j) "Participating Financial Intermediary" or "PFI" has the same meaning as in Section 3.04 (a) of this Agreement;
- (k) "Procedures Manual" means the Procedures Manual referred to in paragraph 13 of Schedule 4 to this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Procedures Manual;
- (l) "Project Account" means the account referred to in paragraph 15 (a) of Schedule 4 to this Agreement;
- (m) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to a letter of agreement, dated December 9, 1993, signed jointly by the Borrower and the Association;
- (n) "Special Account" means any or all of the accounts referred to in Section 2.02 (b) of this Agreement;
- (o) "sub-loan" means a loan made pursuant to a Participating Agreement to finance a sub-project; and
- (p) "sub-project" means any productive or extractive activity, or transport,

trade or other service, including their permanent working capital except for trade, and housing construction, undertaken in connection with a new operation, or an extension or rehabilitation of an existing operation.

## 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 three million seven hundred thousand Special Drawing Rights (SDR 3,700,000).

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall open and maintain special deposit accounts as follows:

(i) one special deposit account in French Francs in the name of each of the PFIs (hereinafter referred to as PFI Special Account) for purposes of Part A of the Project;

(ii) another special deposit account in Comorian Francs in the name of MJ (hereinafter referred to as MJ Special Account) for purposes of Part B of the Project; and

(iii) another special deposit account in Comorian Francs in the name of MFB (hereinafter referred to as MFB Special Account) for purposes of Parts C and D of the Project.

Special accounts shall be held and maintained in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, a Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be June 30, 2001 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 or 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 payment 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) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 commencing September 15, 2004 and ending March 15, 2034. Each installment to and including the installment payable on March 15, 2014 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

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

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end:

(i) shall carry out Part B, and Parts C and D.3, of the Project through MJ and MFB, respectively, and cause PFIs and CASP to carry out, respectively, Part A, and Parts D.1 and D.2, of the Project;

(ii) shall ensure that the Project is carried out with due diligence and efficiency, and in conformity with appropriate technical, administrative and financial practices;

(iii) shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts B, C and D.3 of the Project; and

(iv) shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PFIs and CASP to carry out their respective parts of the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by PFIs and CASP.

(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 Parts B, C and D.3 of the Project, and cause PFIs and CASP to carry out, respectively, Part A, and Parts D.1 and D.2, of the Project, all 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. The Association and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A, and Parts D.1 and D.2, of the Project shall be carried out by PFIs and CASP, respectively.

Section 3.04. (a) For purposes of Part A of the Project, the Borrower shall conclude one or more agreements (hereinafter referred to as Participating Agreements) with BIC, BDC and any other eligible Participating Financial Intermediary (hereinafter referred collectively to as PFIs), whereby it shall agree to on-lend to each such PFI an amount not exceeding the amount of the Credit allocated to Part A of the Project, on the terms and conditions set forth in Schedule 4 to this Agreement, and on such other terms and conditions as shall be acceptable to the Association, including the on-lending terms set forth below:

(i) an adjustable rate of interest, with an initial annual interest rate of 6.5 percent, which shall be reviewed from time to time to take into account the impact of inflation and other relevant factors on the cost of funds;

(ii) a repayment period corresponding to the sum total of repayment schedules applicable to individual sub-loans, which shall not in any case exceed fifteen years, including a grace period of five years; and

(iii) a requirement that the Borrower shall bear the foreign exchange risk of the transaction, with the credit risk being borne by the PFI.

(b) For purposes of Parts D.1 and D.2 of the Project, the Borrower shall conclude a grant agreement with CASP (hereinafter referred to as the CASP Grant Agreement), whereby it shall agree to transfer an amount not exceeding the amount of the Credit allocated to Parts D.1 and D.2 of the Project to CASP on a non-reimbursable basis, on the terms and conditions set forth in Schedule 4 to this Agreement, and on such other terms and conditions as shall be acceptable to the Association.

(c) The Borrower shall exercise its rights under any Participating Agreement and the CASP Grant Agreement, in such manner as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Credit; and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Participating Agreement or the CASP Grant Agreement, or any provision thereof.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures, in respect of Parts B, C and D.3 of the Project, of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing

principles consistently applied, by  
acceptable to the Association;

independent auditors

(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 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

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall 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 statements of expenditure, the Borrower shall:

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

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

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

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

Section 4.02. (a) The Borrower shall cause PFIs and CASP to maintain records and accounts adequate to reflect, in accordance with sound accounting practices:

(i) in the case of PFIs, (A) the operations, resources and expenditures of such PFIs, in respect of Part A of the Project, and (B) and the operations and financial condition of such PFIs; and

(ii) in the case of CASP, the operations, resources and expenditures of CASP, in respect of Parts D.1 and D.2 of the Project.

(b) For the purposes of paragraph (a) of this Section the Borrower shall cause PFIs and CASP to:

(i) have their respective 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 their respective 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, including, in the case of CASP, a separate opinion by said auditors as to whether, and to what extent, the procedures and criteria set forth in the Procedures Manual have been effectively complied with; and

(iii) furnish to the Association such other information concerning such

records, accounts, financial statements and the audit thereof  
as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account for Part A, and Parts D.1 and D.2, of the Project, respectively, were made on the basis of statements of expenditure, the Borrower shall cause PFIs and CASP to:

(i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

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

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

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

#### ARTICLE V

##### Other Covenants

Section 5.01. The Borrower shall cause PFIs and CASP:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on their respective operations and conduct their respective affairs in accordance with sound administrative, financial and technical practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain their respective plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and technical practices.

#### ARTICLE VI

##### Remedies of the Association

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

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

(b) a PFI or CASP shall have failed to perform any of its obligations under a Participating Agreement or the CASP Grant Agreement, respectively;

(c) the Borrower shall have failed to perform any of its obligations under a Participating Agreement or the CASP Grant Agreement;

(d) as a result of events which have occurred after the date of the Development Credit Agreement, a situation shall have arisen which shall make it improbable that a PFI or CASP will be able to perform any of its obligations under a Participating Agreement or the CASP Grant Agreement,

respectively;

(e) the statutes of a PFI or CASP shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the PFI or CASP to perform any of its obligations under a Participating Agreement or the CASP Grant Agreement, respectively; and

(f) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of a PFI or CASP, or for the suspension of its operations.

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

(a) any event specified in paragraph (b) or (c) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraph (a), (d), (e) or (f) of Section 6.01 of this Agreement shall occur.

#### ARTICLE VII

##### Effective Date; Termination

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

(a) the CASP Grant Agreement and at least one Participating Agreement have been duly executed;

(b) the Procedures Manual has been adopted by CASP, and approved by the Borrower and the Association; and

(c) the Borrower has appointed the Legal Reform Coordinator, and established the Commission.

Section 7.02. The following matters are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that any Participating Agreement executed pursuant to paragraph (a) of Section 7.01 of this Agreement has been duly authorized or ratified by the Borrower and the PFI, and is legally binding upon the Borrower and the PFI in accordance with its terms; and

(b) that the CASP Grant Agreement has been duly authorized or ratified by the Borrower and CASP, and is legally binding upon the Borrower and CASP in accordance with its terms.

Section 7.03. 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 7.04. The obligations of the Borrower under Articles IV and V of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date fifteen years after the date of this Agreement, whichever shall be the earlier.

#### ARTICLE VIII

##### Representatives of the Borrower; Addresses

Section 8.01. 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 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministere des Finances et du Budget  
B.P. 324  
Moroni  
Comoros

Telex:

245-MIEF-CAB KO

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:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

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

ISLAMIC FEDERAL REPUBLIC OF THE COMOROS

By /s/ Sultan Chourzour

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Francisco Aguire-Sacarsa

Acting Regional Vice President  
Africa

#### SCHEDULE 1

(Section 2.02 (a))

#### Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
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Under Part A of

the Project:

(1) Goods, works and services	1,800,000	100%
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Under Part B of the Project:

(2) Consultants' services and training	320,000	100%
(3) Equipment, supplies and vehicles	180,000	100% of foreign expenditures and 90% of local expenditures
(4) Library books and materials	40,000	100% of foreign expenditures and 90% of local expenditures

Under Part C of the Project:

(5) Consultants' services and training	120,000	100%
(6) Office equipment, supplies and vehicles	40,000	100% of foreign expenditures and 90% of local expenditures

Under Part D of the Project:

(7) Consultants' services and training:		100%
(a) under Parts D.1 and D.2 of the Project	540,000	
(b) other	70,000	

General:

(8) Audits:		
(a) audit of PFIs	50,000	50%
(b) other	90,000	100%
(9) Operating costs	100,000	90%
(10) Refunding of Project Preparation Advance	220,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(11) Unallocated	130,000	
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TOTAL	3,700,000	
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any

country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which the goods and services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "operating costs" means the incremental operating costs incurred by the Borrower under Parts B and C of the Project on account of local contractual staff salaries and allowances, maintenance of vehicles and fuel, and office rent and utilities.

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

(a) payments made for expenditures prior to the date of this Agreement;

(b) expenditures under Category (1) of the table in paragraph 1 of this Schedule, in respect of any PFI, unless:

(i) a Participating Agreement has been concluded to that effect between the Borrower and the PFI, and

(ii) a conformed copy thereof has been transmitted to the Association, together with a legal opinion, within the meaning of Section 12.02 (b) of the General Conditions, to establish that such Participating Agreement has been duly authorized or ratified by the Borrower and the PFI, and is legally binding upon the Borrower and the PFI in accordance with its terms;

(c) expenditures under Category (4) of the table in paragraph 1 of this Schedule, unless the Borrower has:

(i) submitted to the Association, for approval, a proposed list of library books and materials required under the Project, and

(ii) satisfied the Association that it has established adequate rules to control access to the law library facilities, and taken all other necessary measures, including the recruitment of a full-time law librarian, to ensure the safe-keeping of such books and other materials; or

(d) expenditures under Category (7) (b) of the table in paragraph 1 of this Schedule, unless a training program under Part D.3 of the Project has been submitted to, and approved by, the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure, and under such terms and conditions as the Association shall specify by notice to the Borrower, for the following categories of expenditures:

(a) under Part A of the Project, expenditures under contracts for goods and works, not exceeding \$50,000 equivalent,

(b) under Parts B, C and D of the Project, expenditures under contracts for goods, not exceeding \$10,000 equivalent, and

(c) expenditures under training programs and operating costs.

## SCHEDULE 2

(Preamble, para. (B))

Description of the Project

The objective of the Project is to support the Borrower's efforts to establish an enabling business environment, by providing a nascent private sector with the means and incentives to engage in productive investments.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Line of Credit

Utilization of a line of credit to make sub-loans to eligible beneficiaries to finance financially viable and environmentally sound private investments in productive and service sectors in connection with new operations, or extensions or rehabilitation, of existing operations.

Part B: Legal and Judicial Reforms

1. Compilation, consolidation and publication of existing commercial and business laws.
2. Rehabilitation of the process of publication of the Official Journal.
3. Review of existing commercial and business legislation, with particular emphasis on the Investment Code, property laws, the Commercial Code, Company Law and the Labor Code;
4. Measures to streamline the litigation process in the lower courts, and enhance the capacity of such courts to dispose of commercial law cases, including the establishment of a commercial court jurisdiction, the appointment of conciliation judges, the introduction of a reporting mechanism for magistrates, and a review of the work environment of magistrates and the adequacy of court procedures.
5. Implementation of a training program and other accompanying measures to improve the process of recruitment and the level of training of magistrates and other paralegal staff; and
6. Measures to strengthen the effectiveness of MJ and, in particular, its units responsible for legislative drafting and legal information services, respectively.

Part C: Institutional and Capacity Building

1. Commissioning of a series of studies designed to formulate a medium-term tax reform and investment incentives enhancement plan, with emphasis on eliminating distortions and stimulating investments; and, based upon the findings and recommendations of such studies, development of an action plan to implement the recommendations thereof.
2. Completion of studies on an adequate incentives' program, and an appropriate legal and regulatory framework, for the export and tourism sector; and, based upon the findings thereof, development and preparation of a comprehensive program for the development of the sector.
3. Commissioning of a series of studies on the public enterprise sector, with a view to the establishment of an adequate legal framework for the public enterprise sector, and the continued implementation of the process of privatization and public enterprise reform; and, based upon the findings and recommendations of such studies, development of an action plan to implement the recommendations thereof.

Part D: Enterprise Development Fund

1. Provision of short-term specialized interventions by experts for the benefit of groups of about ten entrepreneurs facing the same or broadly similar issues.
2. Provision of expert assistance by an engineer and a financial analyst for the benefit of private small-scale enterprises.

3. Training in medium- and long-term lending for the benefit of banks, with special emphasis on the needs of small-scale enterprises, risk evaluation and environmental impact assessment, thus strengthening local capacity for the execution of the line of credit.

\* \* \*

The Project is expected to be completed by December 31, 2000.

### SCHEDULE 3

(Section 3.02)

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

1. (a) Except as provided in Part B hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(b) For fixed price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when the contract is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(c) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$500,000 or more.

3. Goods procured in accordance with the procedures described in paragraph 1 (a) above shall be exempted from preshipment price inspection by third parties.

###### Part B: Other Procurement Procedures

1. Civil works under Part A of the Project may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Goods estimated to cost the equivalent of \$500,000 or less per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Goods estimated to cost the equivalent of \$50,000 or less per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

###### Part C: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods and works under Part A of the

Project estimated to cost the equivalent of \$500,000 or more, and each contract for goods under Parts B, C and D of the Project estimated to cost the equivalent of \$10,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$15,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$10,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$15,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$10,000 equivalent or above.

## SCHEDULE 4

(Section 3.01 (b))

### Implementation Program

#### Part A of the Project

1. Pursuant to a Participating Agreement, the PFI shall undertake that it shall:

(a) appraise and approve subproject proposals under the Project, and thereafter supervise such subprojects, in accordance with administrative, financial and disbursement procedures, and environmental guidelines, which shall be acceptable to the Borrower and the Association;

(b) keep the Borrower and the Association regularly informed of the status and progress of subprojects, and promptly inform them of any condition which interferes, or threatens to interfere with, the successful execution of such subprojects;

(c) submit for approval by the Borrower and the Association the first subproject proposal involving a subloan in excess of \$100,000, as well as the first two other subproject proposals arising thereunder;

(d) ensure that the resources available thereunder shall be used exclusively for the purposes for which they were intended;

(e) ensure that goods and services required under the Participating Agreement, or pursuant thereto, shall be procured in accordance with procedures acceptable to the Association, and set forth in this Agreement;

(f) maintain a satisfactory capital adequacy ratio, determined in accordance with generally accepted financial principles;

(g) have its records and accounts audited, and certified copies of such audit reports transmitted to the Borrower and the Association, in accordance with the provisions of Article IV of this Agreement;

(h) carry out all other Project-related obligations of the Borrower under this Agreement, or arising thereunder, in respect of Part A of the Project; and

(i) in the case of BDC, implement a business plan acceptable to the Borrower and the Association, and including measures designed to: (i) put in place an adequate process for the assessment of subprojects and risk evaluation, (ii) review interest rate policy, within the maximum limits of the prevailing rate structure, and (iii) reduce operational costs with respect to turnover and intensify supervision to increase the recovery rate.

2. The Borrower shall ensure that any amount on-lent to a PFI under a Participating Agreement shall be used exclusively by the PFI to make subloans to eligible beneficiaries to finance subprojects, at an interest rate which shall at all times be positive in real terms, and on such other terms and conditions as shall be acceptable to the Borrower and the Association.

3. (a) No subproject shall be considered for financing under the Project, unless:

(i) all eligibility, and other criteria and conditions, agreed upon with the Borrower and the Association, have been complied with, including the following:

(A) except in the case of a housing construction subproject, a minimum rate of return of not less than 10 percent in constant prices;

(B) a projected debt service capacity of not less than 1:1.5 over the life of the subproject, and a long-term debt to equity ratio of not more than 2.33:1; and

(C) except with the prior approval of the Association, in the case of a housing construction subproject, a proposed living area not exceeding 130 square meters; and

(ii) in cases where the technical review of the subproject proposal has indicated the likelihood of environmental hazards, an adequate environmental impact assessment has been undertaken, and necessary measures incorporated to mitigate the environmental impact.

(b) In this paragraph:

(i) "projected debt service capacity" means the ratio of interest and principal annual payments to cash-flow generated from operations; and

(ii) "debt to equity ratio" means the debt to equity ratio calculated on the basis of the total long-term debts, inclusive of those incurred, or to be incurred, under the subproject.

4. (a) Except with the prior approval of the Association,
- (i) no subloan shall exceed:
    - (A) the equivalent of \$200,000, or
    - (B) in the case of a housing construction subproject, the equivalent of \$9,000;
  - (ii) no PFI shall allocate more than 20 percent of total commitments under a Participating Agreement for purposes of housing construction.

(b) The provisions of subparagraph (a) (ii) of this paragraph shall not apply in relation to any PFI, unless the PFI has committed an amount of \$50,000 equivalent for purposes of housing construction under a Participating Agreement.

5. In respect of every subproject to be financed under a Participating Agreement, or pursuant thereto, the contribution of the beneficiary thereof to the cost of the subproject shall be:

- (a) in the case of new subprojects, not less than 30 percent, and
- (b) in all other cases, not less than 20 percent.

#### Part B of the Project

6. (a) The Borrower shall establish a Law Reform Commission, consisting of business and business law experts, including lawyers, magistrates, bankers and other representatives of both the private and the public sectors, to be responsible for the supervision of the process of revision of business laws.

(b) Prior to the commencement of the Project and, thereafter, prior to the beginning of each following fiscal year, the Commission shall prepare, and submit to the Association, an indicative business plan, acceptable to the Association, including proposed targets and objectives for the rest of the implementation period of the Project, and a detailed work program for the forthcoming fiscal year.

7. (a) The Borrower shall appoint: (i) a lawyer, whose qualifications and experience shall be acceptable to the Association, to be the Legal Reform Coordinator and, as such, to be responsible for the coordination of the implementation of Part B of the Project; and (ii) a steering committee, consisting of representatives of magistrates, judges and the unit responsible for the Official Journal, to assist the Legal Reform Coordinator in the implementation of Part B of the Project.

(b) The Legal Reform Coordinator shall prepare, for submission to the Association: (i) quarterly reports on the progress of Part B of the Project; and (ii) prior to the commencement of the Project and, thereafter, prior to the beginning of each following fiscal year, a proposed business plan for Part B of the Project for the forthcoming fiscal year, giving details of proposed targets and objectives for that fiscal year, and the means and strategies needed to achieve such targets and objectives.

8. The Borrower shall, not later than December 31, 1994, issue an administrative circular, setting forth detailed instructions governing the process of preparation of draft legislation, and the printing, distribution and sale of the Official Journal.

9. The Borrower shall take necessary steps to implement the following measures, not later than June 30, 1995, in the case of Moroni, and not later than December 31, 1996, in the case of Anjouan:

(a) establishment of a specialized commercial court jurisdiction within the First Instance Tribunal;

(b) institutionalization of conciliation proceedings within the First Instance Tribunal, and appointment of a conciliation judge; and



(c) establishment of a reporting mechanism, requiring magistrates of the First Instance Tribunals to submit monthly statistics, giving details of the number of cases entered and disposed of during the month, the number of cases which have remained pending for an inordinate length of time, or have been unduly delayed or repeatedly postponed, together with the reasons which account for such delays or postponements.

10. The Borrower shall, not later than September 30, 1994:

(a) prepare a training program for training in commercial and business laws and procedures for the benefit of magistrates, lawyers and other paralegal staff; and

(b) submit to the Association the findings and recommendations of the working party of magistrates on proposed measures affecting work environment and prerogatives of magistrates and, subject to approval thereof by the Borrower and the Association, proceed to implement such recommendations.

11. The Borrower shall make adequate annual budgetary allocations to provide for the additional budgetary positions required in the Judiciary, and, with effect from December 31, 1995, to ensure the regular publication of the Official Journal.

12. The Borrower shall, not later than December 31, 1995, conduct a review of the content and duration of post-degree professional training for magistrates, with a view to facilitating access to the profession.

Part D of the Project

13. Further to Section 3.04 (b) of this Agreement, the amount transferred to CASP pursuant to the CASP Grant Agreement shall be subject to the following additional terms and conditions:

(a) the amount so transferred to CASP shall be used exclusively to finance activities provided for under Parts D.1 and D.2 of the Project, and, except with the approval of the Borrower and the Association, for the sole benefit of enterprises employing less than 50 permanent employees, and in which the majority of the share capital is owned by nationals;

(b) no activity shall be considered for financing under the Project except in accordance with criteria, and terms and conditions, set forth in a Procedures Manual;

(c) except with the approval of the Borrower and the Association, no amendment shall be made to the Procedures Manual;

(d) services required under the CASP Grant Agreement, or pursuant thereto, shall be procured in accordance with procedures acceptable to the Association, and set forth in the Procedures Manual;

(e) no activity shall be financed under the CASP Grant Agreement, unless an agreement has been concluded between the beneficiary thereof and CASP, giving full details of the content and scope of the proposed activity, the respective obligations of CASP and the intended beneficiary thereunder, and the agreed upon cost sharing arrangements, including the schedule of payments;

(f) in respect of every activity to be financed under the CASP Grant Agreement, or pursuant thereto, the contribution of the beneficiary thereof to the cost of the activity shall be: (i) in the case of an activity under Part D.1 of the Project, not less than 30 percent of the cost of the activity, and (ii) in the case of an activity under Part D.2 of the Project, not less than the equivalent of \$25 per consultant per day; and

(g) CASP undertakes to carry out all other Project-related obligations of the Borrower and CASP under this Agreement, or arising thereunder, in respect of Parts D.1 and D.2 of the Project.

Miscellaneous

14. (a) The Borrower and the Association shall, not later than November 30, 1996, undertake, in conjunction with PFIs and CASP, a joint midterm review of the Project, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower, PFIs and CASP of their respective obligations under this Agreement, the Participating Agreements and the CASP Grant Agreement; including, but not limited to, the following:

(i) the progress achieved by MJ, MFB, PFIs and CASP, respectively, during the current fiscal year, having regard to the performance indicators agreed upon between the Borrower and the Association;

(ii) the status of financial and procurement performance under the Project; and

(iii) the proposed budget and work program for the forthcoming fiscal year, including training proposals and proposed procurement procedures, for the Project for the forthcoming fiscal year.

(b) Not later than one month prior to the midterm review, the Borrower shall furnish to the Association, for its comments, a report, in such detail as the Association shall reasonably request, on the progress and status of the Project, and giving details, in particular, of the various matters to be discussed at the said review.

(c) Following the midterm review, the Borrower undertakes to act promptly and diligently, in order to take, or cause PFIs or CASP, as the case may be, to take, any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement, or cause PFIs or CASP, as the case may be, to implement, such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

15. (a) The Borrower shall open, in a commercial bank and on terms and conditions satisfactory to the Association, an account in local currency (hereinafter referred to as the Project Account), to be operated and maintained by MFB, and into which it shall deposit from time to time its local counterpart contribution to the cost of the Project.

(b) The Borrower shall:

(i) not later than January 31, 1995, make an initial deposit of the equivalent of \$20,000 into the Project Account; and

(ii) have the Project Account replenished on an annual basis, or whenever the balance thereof equals not more than one half of the amount of the initial deposit, whichever occurs first.

16. (a) The Borrower shall appoint an economist or financial expert, whose qualifications and experience shall be acceptable to the Association, to be Project Coordinator and, as such, to be responsible for the overall coordination of the implementation of the Project.

(b) The Borrower shall, not later than January 31, 1995, appoint an accountant, whose qualifications and experience shall be acceptable to the Association, to be Project accountant.

(c) The Project Coordinator shall: (i) consolidate all accounts and information pertaining to the Project, and (ii) as the case may be, prepare and transmit, or cause to be prepared and transmitted, to the Association the following reports on the progress of the Project:

(A) in the case of Parts B, C and D.3 of the Project, quarterly progress reports; and

(B) in the case of Parts A, D.1 and D.2 of the Project, six-monthly progress reports.

SCHEDULE 5

(Section 2.02 (b))

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means:

(i) in the case of each PFI Special Account, Categories (1) and (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and

(ii) in the case of the MJ Special Account, Categories (2), (3), (4) and (9) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(iii) in the case of the MFB Special Account, Categories (5), (6), (7), (8) (b) and (9) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures 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 allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount as indicated below to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule:

(i) in the case of each PFI Special Account, an amount equivalent to \$200,000;

(ii) in the case of the MJ Special Account, an amount equivalent to \$50,000; and

(iii) in the case of the MFB Special Account, an amount equivalent to \$70,000.

2. Payments out of a Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) 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 paragraph 4 of this Schedule for the payment or replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of a 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 paragraph 3 of this Schedule, the Association shall not be required to make further deposits into a Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of a Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, 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 a Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

