

CONFORMED COPY

**CREDIT NUMBER 3824 DRC
GRANT NUMBER H 064 DRC**

Development Financing Agreement

(Emergency Economic and Social Reunification Support Project)

between

DEMOCRATIC REPUBLIC OF CONGO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 22, 2003

CONFORMED COPY

**CREDIT NUMBER 3824 DRC
GRANT NUMBER H064 DRC**

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated September 22, 2003, between DEMOCRATIC REPUBLIC OF CONGO (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter, dated August 14, 2003, describing a program of actions, objectives and policies designed to expand governmental administration its territory (the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower, 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 and the Grant to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this

Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “BCECO” means *Bureau Centrale de Coordination, un organisme de droit public* established pursuant to Decret No. 039/2001 dated August 8, 2001, subject to orders by the Borrower’s Ministry of Finance and operating pursuant to laws of the Borrower;

(b) “Beneficiary” means a city, a community including a village or group of villages, or a legal entity in the territory of the Borrower entitled to act, under the laws of the Borrower, on behalf of such city or community, and which has met: (i) the eligibility criteria set out in the POM (as hereinafter defined); and (ii) the requirements of Schedule 4 to this Agreement; and (iii) as a result, has received, or is entitled to receive, a Micro-Grant (as hereinafter defined);

(c) “District” means the administrative entity defined under Title II, article 40, of the decree-law 081 dated July 2, 1998, and signed by the President of the Democratic Republic of the Congo.

(d) “EMRRP” means Emergency Multi-Sector Rehabilitation and Reconstruction Program, the Borrower’s economic program part of which is being financed under a Development Financing Agreement entered into between the Borrower and the Association on August 14, 2002;

(e) “Environmental and Social Management Framework” or “ESMF” means the Borrower’s action plan, to be developed under the Project, mitigating adverse environmental consequences arising from the implementation of activities under Parts D and E of the Project;

(f) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(g) “Fiscal Year” means the fiscal year of the Borrower commencing January 1 and ending December 31 in the same year;

(h) “Implementing Agency” means an entity, NGO (as hereafter defined), community organization or association established and operating under the laws of the Borrower, chosen to assist the Borrower in carrying out Part D and/or Part E of the Project, as the case may be, in accordance with Schedule 4 to this Agreement, and “Implementing Agencies” means collectively all such agencies;

(i) “Micro-Grant Agreement” means an agreement to be entered into between a Beneficiary and an Implementing Agency for the provision of a Micro-Grant in accordance with paragraph 9 of Schedule 4 to this Agreement;

(j) “Micro-Grant” means a grant to be made out of proceeds of the Financing Account for the purposes of carrying out a Subproject (as hereinafter defined);

(k) “NGO” means a Non Governmental Organization established and/or operating in the territory of the Borrower pursuant to the laws of the Borrower;

(l) “POM” means Project Operational Manual, the manual referred to in paragraph 3 of Schedule 4 to this Agreement, as the same may be amended from time to time in agreement with the Association, and such term includes any schedules to the POM;

(m) “Poverty Reduction Strategy Paper” means the Borrower’s means the Borrower’s Poverty Reduction Strategy Paper, based on the interim poverty reduction strategy paper, dated March 2002, presented to the Administrative Directors of the Association in June 2002 (Report No 24216);

(n) “Project Steering Committee”; means the committee to be established in accordance with paragraph 1 of Schedule 4 to this Agreement;

(o) “Province” means the administrative entity defined under Title II, article 5, of the decree-law 081 dated July 2, 1998, and signed by the President of the Democratic Republic of the Congo;

(p) “RN1” means, the part of the Borrower’s national road number 1 between the port of the city of Matadi and the city of Mposo within the Borrower’s territory;

(q) “RN2” means, the part of the Borrower’s a national road number 2 between the city of Bukavu and the city of Mbuji-Mayi within the Borrower’s territory;

(r) “RN4” means, the part of the Borrower’s national road number 4 between the city of Kisangani and the city of Beni within the Borrower’s territory;

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

(t) “Subproject” means any activity under Parts D or E of the Project in respect of which a Micro-Grant has been, or may be provided; and

(u) “UCP” means *Unité de Coordination du Projet*, the Project Coordination Unit to be established within the Borrower’s ministry of planning to implement Parts B, C, D and E of the Project pursuant to paragraph 2 of Schedule 4 to this Agreement.

ARTICLE II

The Financing

Section 2.01. The Association agrees to:

(a) 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-five million seven hundred thousand Special Drawing Rights (SDR 35,700,000) (the Credit); and

(b) make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement an amount in various currencies equivalent to one hundred seventeen million Special Drawing Rights (SDR 117,000,000) (the Grant).

Section 2.02. (a) (i) 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 required for Part A of the Project and to be financed out of the proceeds of the Credit portion of the Financing; and

(ii) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for:

(A) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works, and services required for Parts B and C of the Project and to be financed out of the proceeds of the Grant portion of the Financing; and

(B) withdrawals made for a Micro-Grant to be financed under Parts D and E and to meet the reasonable cost of goods, works and services required for the carrying out of a Subproject to be financed under the Micro-Grant and in respect of which the

withdrawal from the proceeds of the Grant portion of the Financing is requested;

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account 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, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2008 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: (i) 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, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum .

(b) Each 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 Financing Account, or canceled; and (ii) at the respective 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 respective 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) Each 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 January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing January 15, 2014, and ending July 15, 2043. Each installment to and including the installment payable on July 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by 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 of the Credit to conform to the schedule of installments as provided in paragraph (a) above Section 2.07. The currency of the United States is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.08. The currency of the United States 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 with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices and due regard to environmental concerns and community management issues, 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 Financing shall be governed by the provisions of Schedule 3 to this Agreement.

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 a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

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

- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts, and 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 such records, accounts and financial statements and the audit thereof, and concerning said auditors, as the Association shall from time to time reasonably request.
- (c) For all expenditures with respect to which withdrawals from the Financing Account were made on the basis of statements of expenditure, the Borrower shall:
- (i) maintain or cause to be maintained, 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 Financing 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) Without limitation upon the Borrower's progress reporting obligations set out in section II of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) (A) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, (B) projected sources and uses of funds for the Project for the six-month period following the period covered by said report, (C) showing separately funds provided under the Grant, and (D) explains variances between the actual and planned uses of such funds;
- (ii) describes: (A) physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Financing, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 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 Financial Monitoring Report shall be furnished to the Association not later than 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 an extraordinary situation shall have arisen which shall make it improbable that the Program or a significant part thereof shall be carried out.

ARTICLE VI

Effectiveness; Termination

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

The Borrower has:

(a) established UCP in accordance with paragraph 2 of Schedule 4 to this Agreement, and recruited the UCP Director pursuant to the conditions set forth in Section II of Schedule 3 to this Agreement; and (b) has adopted the POM referred to in paragraph 3 of Schedule 4 to this Agreement 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.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister in charge 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:

Minister of Finance
Ministry of Finance
BP 12997
Kinshasa I
Democratic Republic of Congo

Facsimile:

243 88 02 381

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)
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 Dubai, United Arab Emirates, as of the day and year first above written.

DEMOCRATIC REPUBLIC OF CONGO

By /s/ Mutombo Kyamakosa

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Emmanuel Mbi

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Financing

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit and the amounts of the Grant 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>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Eligible Imports required for Part A of the Project as specified in the Annex to this Schedule	35,700,000		100% of foreign expenditures
(2) Works		71,700,000	100%
(3) Goods		8,000,000	100%
(4) Consultants' services and audits		18,400,000	100%
(5) Micro-Grants for:			100% of amounts disbursed
(a) Subprojects under Part D of the Project		5,400,000	
(b) Subprojects under Part E of the Project		3,600,000	
(6) Operating Costs		3,600,000	100%
(7) Unallocated		6,300,000	
TOTAL	<u>35,700,000</u> =====	<u>117,000,000</u> =====	

2. For the purposes of this Schedule:

(a) the term “Eligible Imports” mean the goods listed in the Annex to Schedule 1 to this Agreement;

(b) 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; and

(c) the term “operating costs” means the incremental operating costs incurred under the Project on account of Project implementation and management including maintenance of vehicles, fuel, equipment, office supplies, utilities, consumables, travel per diems and allowances, travel accommodation, office rental and Project support staff recruited for UCP, but excluding salaries of officials of the Borrower’s civil service, and costs incurred on behalf of BCECO’s procurement services under the Project.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 7,100,000, may be made in respect of Category (2) of the table set forth under paragraph 1 of this Schedule 1, on account of payments made for eligible imports made before that date but after July 1, 2003;

(b) payments made for expenditures under Category (1):

(i) for goods supplied under a contract which any international financing institution or agency other than the Association shall have financed or agreed to finance under another credit or grant; and

(ii) for goods intended for military or paramilitary purposes, luxury consumption and used goods.

(c) payments made for expenditures under Categories (2), (3), (4) and (6) of the table set forth under paragraph 1 of this Schedule 1, unless a director for financial administration and one accountant have been recruited for UCP pursuant to the conditions set forth in Section II of Schedule 3 to this Agreement;

(d) payments made in respect of expenditures under Category (5) of the table set forth under paragraph 1 of this Schedule 1, unless: (i) the condition set forth under

paragraph 3 (c) of this Schedule 1 has been fulfilled; and (ii) a Micro-Grant Agreement has been entered into between the Borrower and a Beneficiary pursuant to the provisions of paragraph 9 of Schedule 4 to this Agreement.

3. For purposes of this Agreement, it is understood between the Borrower and the Association that the percentages of expenditures to be financed under the table set forth in paragraph 1 of this Schedule have been calculated on the basis of the provisions of a letter dated August 11, 2003, No.0686/CAB/MIN/FIN/2003 from the Minister of Finance of the Borrower which provides for an exemption of taxes and custom duties levied in the territory of the Borrower on works, goods and services for this Project. In the event of any change made to said letter which has the effect of levying taxes or customs duties on such works, goods and services, the percentages referred to above shall be decreased in accordance with the provisions of Section 5.08 of the General Conditions

4. The Association may require withdrawals from the Credit Account and the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent; (b) works under contracts costing less than \$200,000 equivalent; (c) services for consulting firms under contracts costing less than \$100,000 equivalent; (d) services for individual consultants under contracts costing less than \$50,000 equivalent; and (e) operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

ANNEX TO SCHEDULE 1

Classes of Eligible Imports to be Financed under the Project

1. Agricultural equipment and inputs, including fertilizers and excluding pesticides and insecticides.
2. Construction materials.
3. Transport vehicles and spare parts.
4. Livestock, animal products and veterinary supplies.
5. School supplies and equipment.
6. Medical supplies and equipment.
7. Construction equipment, industrial machinery and spare parts.
8. Electrical equipment, machinery, materials and parts.
9. Petroleum and fuel products.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in its economic and social reunification efforts thereby stabilizing countrywide administration, through: (a) balance of payment support; (b) institutional strengthening of entities and governance systems throughout its territory; (c) infrastructure and urban rehabilitation; and (d) community empowerment.

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: Balance of Payments Support

The importation of goods specified in the Annex to Schedule 1 to this Agreement, to assist the Borrower in carrying out the Program.

Part B: Institutional Strengthening

1. Establishment of a sound economic governance system and carrying out economic reforms including the improvement of: (a) revenue collection capacity; (b) public resource management capacity; (c) transparency of government actions in all sectors; and (d) public dissemination of knowledge of and participation in economic reforms, through the provision of technical advisory services, training, and acquisition of equipment.
2. Preparation of the Borrower's Poverty Reduction Strategy Paper with broad participatory process involving all sectors of civil society through the provision of technical advisory services and the acquisition of equipment.
3. Strengthening of the Borrower's forestry management agencies and enhancement of local governance of natural resources including: (a) preparation of a national forest zoning plan; and (b) developing the administration's capacity in the provision of forestry services.
4. Development and implementation of strategies and action plans for effective reunification of the Borrower's public institutions, through the provision of technical advisory services and training.

5. Carrying out of engineering and other studies required for the expansion of activities undertaken under the EMRRP to all parts of the Borrower's territory, including, *inter alia*, studies pertaining to the *aménagement du territoire*, through the provision of technical advisory services and training.

Part C: Infrastructure Rehabilitation

1. Rehabilitation and maintenance of RN2 and RN4 including: (a) rehabilitation of bridges; (b) rehabilitation of damaged sections; and (c) maintenance of RN2 and RN4 for a period of two years.
2. Rehabilitation of a 10-kilometer section of RN1 including patching, backfilling, cleaning of ditches, and maintenance of shoulders.

Part D: Urban Rehabilitation

1. Provision of Micro-Grants to finance Subprojects aimed at the development and implementation of mechanisms for rehabilitation of local infrastructure and service delivery in the Borrower's cities of Bukavu, Goma, Kindu and Kisangani.
2. Provision of Micro-Grants to finance Subprojects aiming at the development and implementation of mechanisms for rehabilitation of local infrastructure and service delivery in the Borrower's cities of Bumba, Butembo, Isiro, Kalemie, Kalima, Kassongo, Lusambo and Uvira.

Part E: Community Empowerment

Provision of Micro-Grants to finance Subprojects to be proposed by communities in the Districts of Buta, Gemema, Isiro, Kibombo, Lodja and Masisi, covering activities such as infrastructure repairs, development of community assets, provision of agricultural inputs and tools, establishment of revolving funds, provision of social services, and provision of technical advisory services and training.

* * *

The Project is expected to be completed by March 31, 2008.

SCHEDULE 3

Procurement

Section I. Procurement of Good and Works

Part 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 this Section.

Part 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 provisions 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 \$100,000 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) Prequalification

Bidders for contracts estimated to cost more than \$1,000,000 equivalent shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(d) Notification and Advertising

Bids for contracts for works estimated to cost \$500,000 equivalent or more, and bids for goods estimated to cost \$200,000 equivalent or more, shall be advertised in accordance with the procedures set forth under paragraph 2.8 of the Guidelines.

Part C: Modified International Competitive Bidding

1 Except as otherwise provided in Part B of this Section, contracts for goods to be procured for the implementation of Part A of the Project, shall be awarded in accordance with the provisions of Section II paragraphs 2.63, 2.64 and 2.65 of the Guidelines.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part C:

(a) Commonly traded commodities

Commonly traded commodities described in the Annex to Schedule 1 to this Agreement shall be procured under contracts awarded in accordance with Section II, paragraph 2.65 of the Guidelines.

(b) Public Sector Imports

Except as otherwise provided under paragraph 2 (a) of this Part C, goods described in the Annex to Schedule 1 to this Agreement and estimated to cost less than \$2,000,000 (two million Dollars) equivalent per contract, may be procured under contracts awarded in accordance with the Borrower's established procurement procedures satisfactory to the Association.

(c) Private Sector Imports

Except as otherwise provided under paragraph 2 (a) of this Part C, goods described in the Annex to Schedule 1 to this Agreement, and estimated to cost less than \$3,000,000 (three million Dollars) equivalent per contract, may be procured under contracts awarded in accordance with established commercial practices satisfactory to the Association.

Part D: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$500,000 per contract, and goods estimated to cost less than \$200,000 equivalent per contract, 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 and works estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature and costing \$3,000,000 equivalent or less in the aggregate, 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

Equipments such as computers vehicles under contracts costing less than \$200,000 up to an aggregate amount not to exceed \$500,000 equivalent, may be procured from the United Nations Development Program's Inter-Agency Procurement Services Office in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Community Participation

Goods and works required for Subprojects under Part E of the Project shall be procured in accordance with the provisions of paragraph 3.15 of the Directives and with procedures acceptable to the Association, as set forth in the POM.

6. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract 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.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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

(a) With respect to: (i) each contract under International Competitive Bidding; (ii) the first three contracts awarded under Part D of this Section I of Schedule 3 to this Agreement (NCB contracts); and (iii) the first three Micro-Grant Agreements concluded under Parts D and E, respectively, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply;

(b) With respect to all contracts under Direct Contracting, the Borrower shall provide to the Association, prior to the signing of the contract, a copy of the draft contract for approval; and

(c) the procedures set forth in paragraph 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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 this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, 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 under contracts 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.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services under contracts estimated to cost less than \$500,000 equivalent per contract up to an aggregate amount not to exceed \$500,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Least cost selection

Services for audits, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3. 6 of the Consultant Guidelines.

3. Single Source Selection

Services of NGOs or Executing Agencies, as the case may be, under Parts D and E of the Project may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for 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.

Part 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 annually at the time of the Annual Review for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to: (i) all contracts for the employment of consulting firms under Quality and Cost-Based Selection under Section II, Part B of this Schedule; and (ii) the first three contracts for the employment of consulting firms under Consultants Qualifications under Section II, Part B of this Schedule, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to the first three contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent per contract, the report on the comparison of the qualifications and experience of candidates, 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

I. Overall Project Supervision and Implementation Arrangements

1. The Borrower shall establish, by a date not later than three months following the Effectiveness Date, and maintain at all times until the Closing Date a Project Steering Committee in form and with functions satisfactory to the Association which shall, on behalf of the Borrower, gather and coordinate all Project related information and oversee UCP's activities. Said Committee shall comprise one representative of each of the Borrower's ministries in charge of planning, finance, budget and *aménagement du territoire*, as well as a representative of the office of the economic advisor of the President of the Borrower.

2. The Borrower shall:

(a) maintain, at all times until the Closing Date, UCP which shall be responsible for the implementation of Parts B, C, D and E of the Project, with staff having qualifications, experience and working under terms of reference acceptable to the Association.

(b) carry out Part A of the Project through the ministry in charge of finance.

3. The Borrower shall maintain the Project Operational Manual, setting out details of: (a) the Project implementation plan; (b) the Project financial management and administration plan; (c) a Project procurement plan; (d) procedures for preparation, appraisal, approval, implementation and supervision of Subprojects; (e) standard formats for Micro-Grant Agreements; and (f) such other administrative, financial, technical and organizational arrangements as shall be required for the implementation of the Project.

4. The Borrower shall take all measures necessary to ensure that the Project is carried out in conformity with the POM and the ESMF, and shall not amend or waive any provision thereof which, in the opinion of the Association, will materially or adversely affect the implementation of the Project.

5. The Borrower shall cause BCECO at all times until the Closing Date to support the Borrower in carrying out the procurement of goods, works, and services required for the implementation of the Project under terms and conditions satisfactory to the Association.

II. Monitoring and Evaluation, Annual and Midterm Reviews

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) (i) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31 of each calendar year, commencing on March 31, 2004, a report 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 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

(ii) review with the Association, by May 15 of each calendar year, commencing on May 15, 2004, the report referred to in paragraph (b) of this Section, (Annual Review) 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.

(c) (i) by December 31, 2005, or such other date as the Association shall agree upon, carry out jointly with the Association, a midterm review (Midterm Review). The Borrower shall invite the members of sector ministries and agencies affected by the Project to participate, and take all actions it considers necessary to ensure the participation of representatives of community associations involved in the carrying out of the Project in such Midterm Review. Such Midterm Review shall cover the progress achieved in the implementation of the Project under an agenda encompassing the agenda of the Annual Reviews, and, more specifically, the achievements under Parts B, C, D and E of the Project.

- (ii) No later than one month prior to the Midterm Review, the Borrower shall furnish to the Association, for its review and comments, a report, in such detail as the Association shall reasonably request, on the implementation of the Project.
- (iii) Following such Midterm Review, the Borrower shall act promptly and diligently in order to take any corrective action deemed necessary by the Association to remedy any shortcoming noted in the implementation of the Project, or to implement such other measures as may have been agreed upon between the Borrower and the Association in furtherance of the objectives of the Project and in accordance with the POM and ESMF.

III. Other Covenants

7. The Borrower shall:

(a) by a date not later than three months following the Effectiveness Date, establish a financial management system in PCU for the carrying out of the Project, in form and substance satisfactory to the Association.

(b) by a date not later than twelve months following the Effectiveness Date, furnish to the Association, in form and substance acceptable to the Association: (i) the ESMP; and (ii) a social and environmental assessment study for Part C of the Project.

IV. Procedures and Eligibility Criteria for Micro-Grants

8. The Borrower shall provide Micro-Grants to finance Subprojects under Parts D and E of the Project in accordance with procedures and eligibility criteria set forth in the POM and the ESMF. The carrying out of Subprojects shall be undertaken and supervised through Implementing Agencies, or any other agency of the Borrower, which BCECO may select under terms of reference and procedures satisfactory to the Association. Said Implementing Agency shall, either directly or through another NGO, community organization or association established and operating under the laws of the Borrower, carry out the Subproject. The relationship between all parties involved in carrying out a Subproject (from the Borrower on the one side to the Beneficiary on the other side) shall be reflected in a series of coherent contractual agreements, which shall in form and substance comply with the POM and ESMF, and shall include, as appropriate, the following:

- (a) (i) eligible Subprojects under Part D of the Project shall provide socio-economic benefits to communities through activities such

as rehabilitation of infrastructure, provision of basic social services including health, education, water, community centers, energy, environment, sanitation, and training; and

- (ii) eligible Subprojects under Part E of the Project shall provide socio-economic benefits to communities through activities such as infrastructure repairs, development of community assets, provision of agricultural inputs and tools, establishment of revolving funds, provision of social services, and provision of technical advisory services and training;

(b) Subprojects shall be economically, financially and technically viable in accordance with standards set forth in the POM.

9. Beneficiaries shall enter into a Micro-Grant Agreement with an Implementing Agency, an NGO or a duly authorized community organization or association, as the case may be, under terms and conditions satisfactory to the Association, which shall include the following:

(a) Each Micro-Grant under: (i) Part D.2 shall not exceed the equivalent of \$300,000; and (ii) under Part E shall not exceed the equivalent of \$10,000;

(b) the Beneficiary's obligation to carry out the Subproject in accordance with the POM, with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Subprojects;

(c) the requirement that: (i) goods, works and services to be financed from the proceeds of the Micro-Grant shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement, and (ii) such goods, works and services shall be used exclusively in the carrying out of the Subproject;

(d) the right of the UCP or an Implementing Agency to control by itself or jointly with the Association, if the Association shall so request, the goods, works and services included in the Subproject, the operations thereof, and any relevant records and documents;

(e) the right of the UCP or an Implementing Agency to obtain all information as the UCP or the Association shall reasonably request regarding the administration, operation and financial conditions of the Subproject; and

(f) the right of the UCP to suspend or terminate the right of the Beneficiary to use the proceeds of the Micro-Grant upon the failure by said Beneficiary to perform any of its obligations under the Micro-Grant Agreement.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories means Categories (2), (3) (4), and (6) 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, works and services required for the Project and to be financed out of the proceeds of the Financing 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 equivalent to \$2,000,000 to be withdrawn from the Financing Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Financing 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 4,000,000 (four million Special Drawing Rights).
2. Payments out of the 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 the 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 deposit into the Special Account of an amount or amounts, 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 Financing 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 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 Financing 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 Financing 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 the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the 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 Financing Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) 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 the records and accounts for the Special Account;

- (c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Financing Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments 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 Financing Account of the remaining unwithdrawn amount of the Credit and the Grant 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 the 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 the 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 the Special Account.

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

SCHEDULE 6

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is amended to read:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.

2. Paragraph 8 of Section 2.01 is amended to read as follows:

8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement

3. The following new paragraphs are added to Section 2.01:

15. “Grant” means the development grant provided for in the Development Financing Agreement;

16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited;

17. “Financing” means, collectively, the Credit and the Grant; and

18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).

4. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01 (2), 2.01 (12), 3.01,

4.01, Article V, Article VI (excluding Section 6.05), Section 7.01 (d), Article VII, and Article IX.

5. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Sections 2.01 (6), 3.01, 4.01, Article V, Article VI, and Section 12.03.

6. The term “Development Credit Agreement”, wherever used in the General Conditions, is amended to read the Development Financing Agreement.

7. Section 3.01 is modified to read as follows:

“The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

8. The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02 (a) (ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02 (c) (i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01 (b) (i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”:

9. Section 6.05 is amended to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

SCHEDULE 7

Monitoring and Evaluation Indicators

1. By March 31, 2008, the following economic management benchmarks shall have been met:

(a) the Poverty Reduction Strategy Paper shall have been adopted by the Borrower;

(b) at least ten new forestry concessions shall have been awarded pursuant to the regular procedures provided for in the Borrower's forestry code of 2002; and

(c) the amount of fiscal revenues collected in the reunified Provinces shall conform to the estimates in the Borrower's economic program, dated April 2002, as updated in 2005.

2. By March 31, 2008, the possible speed for a vehicle traveling on the sections of RN 2 and RN 4 rehabilitated under Part C of the Project shall be at least 25 kilometers per hour in average.

3. By March 31, 2008, ownership and maintenance obligations for at least 80% of all works carried out to rehabilitate urban infrastructure under Part D of the Project shall have been transferred to the Beneficiaries. These activities should have been implemented in at least 8 different urban centers.

4. By March 31, 2008, at least 500 communities in eligible areas should have benefited from Micro-grants.