

CONFORMED COPY

CREDIT NUMBER 3311 GUI

Development Credit Agreement

(Capacity Building for Service Delivery Project)

between

REPUBLIC OF GUINEA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 14, 2000

CREDIT NUMBER 3311 GUI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 14, 2000, between REPUBLIC OF GUINEA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated November 16, 1999, from the Borrower describing a program of actions, objectives and policies designed to implement administrative and financial decentralization to improve the accountability and capacity of decentralized entities and agencies within its territory to deliver better services to its rural population (the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has requested that the Association support its execution of the Program through a series of Credits over a period of twelve years, the proceeds of such Credits to be utilized by the Borrower for implementing the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Program, has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower in support of the first phase of the Program 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 below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (c) is added to Section 3.04 to read as follows:

"If the Association shall at any time receive less than the full amount then due and payable to it under the Development Credit Agreement, the Association shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Development Credit Agreement as the Association shall in its sole discretion determine.";

(b) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new sentence at the end of the said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

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) "Advance Account" means a sub-account of the Special Account referred to in Section 2.02 (b) of this Agreement;

(b) "Beneficiary" means: (i) a Prefecture (as hereinafter defined), CRD (as hereinafter defined) or District (as hereinafter defined) to which or for whose benefit a Performance Grant is made, or proposed to be made (hereinafter Performance Grant Beneficiary); or (ii) an individual, team or rural community working in the Project Area (as hereinafter defined) to whom or for whose benefit a Performance Award is made or proposed to be made (hereinafter Performance Award Beneficiary);

(c) "Communauté Rurale de Développement or "CRD" means the local government of a selected rural area in the territory of the Borrower, established and operating pursuant to the Borrower's Ordinance of October 22, 1990;

(d) "CPD" or Conseil Préfectoral de Développement" means an organ of the Prefecture (as hereinafter defined) composed of elected representatives of local communities residing in a Prefecture and a representative of the Prefectoral administration, to be established by the Borrower with decision-making powers over Prefecture programs, budgets and staffing;

(e) "District" means the basic administrative and territorial units that form a part of a CRD";

(f) "Eligible Categories" means the categories set forth in the table in Paragraph A.1 of Schedule 1 to this Agreement;

(g) "Eligible Expenditures" means the expenditures for goods, works, services and amounts paid or to be paid under Performance Grants, referred to in Section 2.02 (a) of this Agreement;

(h) "Franc Guinéen" means the currency of the Borrower;

(i) "Initial Deposit" means the initial amount to be deposited into the Project Account (as hereinafter defined) pursuant to Section 3.02 (b) of this Agreement;

(j) "MATD" means the Borrower's Ministry of Territorial Administration and Decentralization;

(k) "MECS" means the Borrower's Ministry of Employment and Civil Service;

(l) "MEF" means the Borrower's Ministry of Economy and Finance;

(m) "MPC" means the Borrower's Ministry of Planning and Cooperation;

(n) "Performance Award" means a reward for superior performance in service delivery that may be delivered by PMU (as hereinafter defined) to an individual, team, or rural community group working in the Project Area (as hereinafter defined), in accordance with criteria, procedures and terms and conditions set forth in the manual of procedures of the SPISDF;

(o) "Performance Grant Agreement" means an agreement between the Borrower represented by PMU and a Performance Grant Beneficiary setting forth the terms and conditions under which proceeds of the Credit shall be made available to such Beneficiary for the purpose of financing Sustainable Performance in Service Delivery Sub-projects under Part D.2 (a) of the Project;

(p) "Performance Grant" means a grant made or proposed to be made by the Borrower to Performance Grant Beneficiaries (as hereinafter defined) for the purpose of financing Performance Improvements Sub-projects (as hereinafter defined) under Part D.2 (a) the Project;

(q) "PIMC" means the Project Inter-Ministerial Management Committee whose functions and attributions are described in Paragraph 6 of Schedule 4 to this Agreement;

(r) "PMU" or Project Administration Unit means the unit whose functions and attributions are described in Paragraph 7 of Schedule 4 to this Agreement;

(s) "Prefecture" means a selected administrative district in the territory of the Borrower headed by a Prefect, and operating under the Borrower's Decree No. 004 of January 5, 1989;

(t) "Project Account" means the account referred to in Section 3.02 of this Agreement;

(u) "Project Administrator" means the manager of PMU (as hereinafter defined), to be selected by the Borrower in accordance with paragraph 7 (b) of Schedule 4 to this Agreement;

(v) "Project Area" means the Prefectures of Coyah, Mamou, Faranah and Macenta and any other administrative district in the territory of the Borrower as may be added by the Borrower in consultation with the Association;

(w) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(x) "Project Operational Manual" or "POM" means the manual containing, inter alia, guidelines, timetables, procedures and other arrangements for the purpose of implementing the Project, and such term includes any schedules and amendments to the POM; as the same may be amended from time to time, in consultation with, and with the consent of, the Association;

(y) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to two Letter Agreements, dated October 25, 1999 and November 5, 1999, respectively;

(z) "Project Year" means the first period of twelve (12) months following the Effective Date of the Project (First Project Year) and each subsequent period of twelve months thereafter until the completion of the Project;

(aa) "PSC" or Comité d'Orientation means the Project Steering Committee whose functions and attributions are described in paragraph 5 of Schedule 4 to this Agreement;

(bb) "Sous-Préfecture" means a defined administrative district in the territory of the Borrower, that forms part of a Prefecture and is headed by a Sous-Préfet.

(cc) "Special Account" means the account referred to in Section 2.02 (b) and Part B of Schedule 1 to this Agreement;

(dd) "Sustainable Performance In Service Delivery Fund" or "SPISDF" means a fund, to be established by the Borrower in accordance with paragraph 8 of Schedule 4 to this Agreement, to finance Performance Grants and Performance Awards; and

(ee) "Sustainable Performance In Service Delivery Subproject" means an activity or a set of activities designed to sustain quality performance in service delivery proposed by a Performance Grant Beneficiary within the scope defined in Part D of the Project and financed or to be financed out of the proceeds of the Credit.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirteen million eight hundred thousand Special Drawing Rights (SDR 13,800,000).

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: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, 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; and (ii) amounts paid (or if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made for the benefit of a Performance Grant Beneficiary to meet the reasonable cost of goods, works or services required for Sustainable Performance in Service Delivery Sub-projects to be financed under Part D.2 (a) of the Project in respect of which withdrawal from the Credit Account is requested.

(b) The Borrower may, for purposes of the Project, open and maintain in US dollars a special deposit account in a commercial bank or any other bank acceptable to the Association on terms and conditions satisfactory to the Association, including, in the case of a commercial bank, 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 1 to this Agreement.

(c) The Borrower shall:

(i) open and maintain in Francs Guinéens, for each Prefecture in the Project Area an Advance Account of the Special Account, in a commercial bank or any other bank acceptable to the Association on terms and conditions satisfactory to the Association, including, in the case of a commercial bank, appropriate protection against set off, seizure or attachment, to be used by such Prefectures exclusively for the purposes of financing works, goods and services required under the Project; and

(ii) withdraw from the Special Account and deposit into each Advance Account an amount not exceeding \$15,000, and thereafter replenish said Advance Account in accordance with paragraph 7 of Section B of Schedule 1 to this Agreement.

(d) 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 canceled.

Section 2.03. The Closing Date shall be June 30, 2004, 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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15, commencing March 15, 2010 and ending September 15, 2039. Each installment to and including the installment payable on September 15, 2019 shall be one percent (1%)

of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and public sector management practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the Borrower shall:

(a) open an account in Francs Guinéens in a commercial bank acceptable to the Association (the Project Account), and thereafter maintain said Project Account under terms and conditions acceptable to

the Association until the completion of the Project;

(b) deposit into the Project Account: (i) an initial amount equivalent to \$300,000 for the First Project Year; and (ii) thereafter replenish the Project Account every six months following the end of the First Project Year, by depositing therein an amount equivalent to \$275,000, to finance the Borrower's contribution for expenditures under the Project other than those financed from the proceeds of the Credit; and

(c) ensure that funds deposited into the Project Account in accordance with paragraph (b) of this Section shall be used exclusively to finance expenditures under the Project other than those financed from the proceeds of the Credit.

Section 3.03. 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 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association no later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

#### 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 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 Accounts 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 no later than four months after the end of each such year, 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 and 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:

(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 Credit 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 provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, no later than eighteen (18) months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association no later than 45 days after the end of each calendar quarter, a Project Management Report for such period.

#### ARTICLE V

##### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation shall have arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has opened the Project Account and has deposited therein the Initial Deposit referred to in Section 3.02 (b) (i) of this Agreement;

(b) the Borrower has adopted the Project Operational Manual, in form and substance satisfactory to the Association;

(c) the Borrower has appointed the auditors referred to in Section 4.01 (b) of this Agreement, under terms and conditions acceptable to the Association and in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(d) the Borrower has established an adequate financial management and accounting system, satisfactory to the Association; and

(e) the Borrower has appointed the Project Administrator and the professional staff of PMU referred to in Paragraph 7 (b) of Schedule 4 to this Agreement, all with experience and qualifications acceptable 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 at the time responsible for Finance 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:

Ministre de l'Economie  
et des Finances  
BP 579  
Conakry, Guinea

Telex:

22399 MIFIGE

For the Association:

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

Cable address:  
Facsimile

Telex:

477-6391 INDEVAS 248423 (MCI) or (202)  
Washington, DC. 64145 (MCI)

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

REPUBLIC OF GUINEA

By /s/ Mohamed Aly Thiam

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Brian T. Ngo

Acting Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

Expenditures Category Financed	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of to be
(1) Civil works	100,000	50%
(2) Equipment, vehicles foreign office furniture expenditures and local expenditures	2,400,000	100% of  90% of
(3) Consultants' services, including audits and training	5,500,000	100%
(4) Incremental operating costs	1,900,000	80%
(5) Performance Grants amounts	1,650,000	100% of

disbursed	under Part D.2 (a)		
	of the Project		
(6)	Performance Awards under Part D.2 (b) of the Project	550,000	90%
(7)	Refunding of the due pursuant Project Preparation Section 2.02 (c) Advance Agreement	900,000	Amount to of this
(8)	Unallocated	800,000	
	TOTAL	13,800,000	

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 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; and

(c) the term "incremental operating costs" means expenditures incurred on account of Project implementation, management and monitoring including office consumables (including communication expenses), staff travel and associated subsistence allowances, salaries for incremental contractual and temporary staff, office rental, office supplies and maintenance, and fuel and maintenance for vehicles and equipment, but excluding salaries of the Borrower's civil servants.

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

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

(b) in respect of expenditures under Categories (5) and (6), until the Borrower has: (i) established a performance appraisal and incentive systems satisfactory to the Association, including the establishment of the Sustainable Performance in Service Delivery Fund, with a legal, institutional and operating framework, including a manual of procedures, satisfactory to the Association; and (ii) deposited into the Project Account an amount equivalent to \$50,000 to contribute to the said Fund; and

(c) in respect of a Performance Grant under Part D.2 (a) unless the Performance Grant has been made in accordance with the eligibility criteria and terms and conditions set forth or referred to in Paragraph 8 of Schedule 4 to this Agreement and in more detail in the manual of procedures of the SPISDF.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures made for: (a) civil works not exceeding \$50,000 equivalent; (b) for goods not exceeding \$100,000; (c) for consulting firms under contracts not exceeding \$100,000 equivalent and for individual consultants' services under contracts not exceeding \$50,000 equivalent; all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in US dollars a special deposit account in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

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

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

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

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01(b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account or an Advance Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly

upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to subparagraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

7. (a) The Borrower shall withdraw from the Special Account and deposit into each Advance Account funds to assist the beneficiary of such account to pay for works, goods and services under the Project. Such withdrawals and deposits shall be in amounts sufficient to assist each beneficiary to pay for such goods, works and services in due course, provided that at no time shall the Borrower cause the amount to be held in any Advance Account to exceed the equivalent of \$15,000.

(b) Payments out of Advance Accounts shall only be made for eligible expenditures in respect of Categories (1), (2), (3), and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) Any withdrawal from any Advance Account must be justified to the Borrower by the same documentation and other evidence regarding Eligible Expenditures.

Annex A  
to  
SCHEDULE 1

Operation of Special Account  
When Withdrawals Are Not Made  
On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 2,000,000.

2. Withdrawals of the Special Account's Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) for withdrawals of the Special Account's 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 in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the

Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B  
to  
SCHEDULE 1

Operation of Special Account  
When Withdrawals Are Made  
On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$3,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in establishing mechanisms for transferring resources and institutional accountability to decentralized entities and agencies within its territory, and for strengthening the ability of rural communities to manage their resources and take charge of their own needs, with the view to improving service delivery to such rural populations.

Subject to such modifications as the Borrower and the Association may agree upon from time to time to achieve the Project's objectives, the Project consists of the following Parts.

Part A: Decentralizing Public Expenditure Management

1. Implementing fiscal decentralization and introducing an integrated performance-based budgeting approach by:

(a) establishment of a decentralized budgeting system at the Prefecture and CRD levels;

(b) adoption of new budget classification rules detailing budgetary resources accruing to prefectural and decentralized entities; and

(c) strengthening the financial management and control units in selected ministries of the Borrower, the CRDs and the Prefectures; all through the provision of technical advisory services and training, carrying out of studies and workshops, and acquisition of equipment and materials.

Part B: Decentralizing Institutional Accountability and Capacity for Service Delivery to Local Governments and Communities

1. Carrying out of a revision of the institutional framework with the view to increasing administrative decentralization.

2. Carrying out a review and strengthening of the functions and structures of relevant units in the Borrower's ministries, Prefectures and CRDs.

3. Establishment of delivery and management systems at the Prefecture and CRD levels; all through the provision of technical advisory services and training and the acquisition of equipment and materials.

4. Carrying out of infrastructure rehabilitation works in Préfectures and Sous-Préfectures.

Part C: Improving Communication with the Rural Population

1. Strengthening of consultative mechanisms at the CRD level and at the service delivery point between providers and beneficiaries of services, through the provision of training and technical advisory services.

2. Establishment of Prefecture Development Councils with decision-making powers over Prefecture programs, budgets and staffing, through the provision of technical advisory services and training.

3. Carrying out of a training program on participatory mechanisms to prefectural and local officials, service providers and beneficiary rural populations.

4. Carrying out of a public information campaign to improve communication between service providers and beneficiary rural populations through the provision of technical advisory services and training.

Part D: Introducing a Performance Incentive System

1. Development of a performance appraisal and incentive system through the carrying out of participatory research studies, testing and dissemination of proposed approaches, workshops and overseas study visits.

2. Establishment of a Sustainable Performance in Service Delivery Fund (SPISDF) to finance: (a) the implementation of SPISD Subprojects; and (b) Performance Awards in the form of goods and training to deserving individuals, teams or rural communities with a record of superior performance in service delivery.

Part E: Project Coordination and Management

Coordination, management and supervision of the Project through: (a) acquisition of equipment, vehicles, materials and supplies for PMU and provision of support for operating costs; and (b) the carrying out of evaluations to assess the impact of Project activities on their intended beneficiaries and the progress of institutional improvements.

\* \* \*

The Project is expected to be completed by December 31, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods 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 I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 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 vehicles, motorcycles, computer, communications or office equipment shall be grouped in bid packages estimated to cost \$50,000 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 Borrower.

(c) Notification and Advertising

The invitation to bid for each contract estimated to cost \$100,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Vehicles, motorcycles and equipment estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$60,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Computer, communication and office equipment estimated to cost less than \$5,000 equivalent per contract, up to an aggregate amount not to exceed \$60,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for works estimated to cost the equivalent of \$50,000 or more, and for the first five contracts for works, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for vehicles, motorcycles or equipment estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, and the following provisions of this Section II.

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, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions 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 for technical assistance, training and studies under Parts A, B, C, D, and E of the Project, estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for training in decentralization and management under Parts B and C of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Least Cost Selection

Services for project auditing under Part E of the Project and services of a standard nature estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Use of Nongovernmental Organizations

Services for studies under Parts A and D of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.13 and 3.14 of the Consultant Guidelines.

4. Single Source Selection

Services which are estimated to cost less than \$25,000 equivalent per contract, may, with the Association's prior agreement, be procured, with the approval of the Association, in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

5. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants 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

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more,

the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)), 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) Any amendment to a contract for the employment of a consulting firm that would increase the amount of the contract to \$100,000 or more and any amendment to a contract for the employment of an individual consultant that would increase the amount of the contract to \$50,000 or more shall be subject to the prior review of the Association.

### 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

1. The Borrower shall implement the Project in accordance with the procedures, guidelines, timetables and criteria set forth in the POM and, except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of said POM if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with monitoring and performance indicators agreed upon between the Borrower and the Association, the carrying out of the Project; and

(b) furnish to the Association, for its review and comments:

(i) no later than December 1 of each year, commencing on December 1, 2000, or such later date as the Association may agree, until the completion of the Project, the draft budget for the next Project Year; and

(ii) no later than February 15 of each year, or such later date as the Association may agree, commencing on February 15, 2001, until the completion of the Project, an annual report setting forth, inter alia: (A) a summary of the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph; and (B) progress achieved in the carrying out of the Project.

3. (a) By March 15 of each year, commencing March 15, 2001 or such later date as the Association may agree, until the completion of the Project, the Borrower and the Association shall carry out an annual review of the Project (hereinafter called the Annual Review); such Annual

Review shall cover the progress achieved in the execution of the Project and, inter alia, review the information furnished in accordance with paragraph 2 (b) of this Schedule, and work programs to be carried out under the Project during the following Project Year.

(b) Following such Annual Review the Borrower shall carry out said work programs in accordance with modalities and procedures approved by the Association and in accordance with the POM, and shall not make any material change to the approved programs without the prior approval of the Association.

4. (a) No later than 24 months after the Effective Date or such other date as the Borrower and the Association shall agree upon, the Borrower and the Association shall carry out a mid-term review (hereinafter referred to as the Midterm Review). The Borrower shall take all actions it considers necessary to ensure the participation of relevant non-governmental organizations, and beneficiaries of the Project in such Midterm Review. Such Midterm Review shall cover the progress achieved in the implementation of the Project.

(b) 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.

(c) 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 and the Program, as the case may be, 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.

5. The Borrower shall maintain at all times during the implementation of the Project a Project Steering Committee (PSC), named Comité d'Orientation, which shall be responsible for the overall coordination and oversight of the Project. The PSC shall have authority to: (i) approve the project annual work programs and budgets; (ii) review the implementation progress towards achievement of project's objectives; and (iii) issue general guidelines for project implementation and decide on major corrective actions. PSC will meet at least twice a year or any time as necessary upon the invitation of its Chairman. PSC shall be chaired by the Prime Minister and its members shall include the Minister of Planning and Cooperation, Vice-Chair; the Minister of Territorial Administration and Decentralization; the Minister of Economy and Finance; the Minister of Employment and Civil Service; and the Ministers of Pre-university Education, Health, Agriculture and Livestock, and Justice.

6. The Borrower shall maintain at all times during the implementation of the Project an Inter-Ministerial Management Committee (PIMC), chaired by the Minister of Territorial Administration and Decentralization, which shall be responsible for the day to day coordination and of project implementation. PIMC shall meet at least twice a month to review the Project's overall implementation progress and to take appropriate decisions to ensure coordination of the different components. PIMC's membership shall include representatives from each of the four ministries of the Borrower responsible for the implementation of the Project: MPC, MEF, MECS, MATD.

7. The Borrower shall:

(a) maintain until the completion of the Project, a PMU within MATD, which shall serve as the secretariat of PIMC and shall be responsible for overall financial management and accounting for the Project and for providing technical and financial support to implementing agencies, in particular with respect to procurement, disbursement,

financial accounting, monitoring and evaluation. PMU shall be headed by an administrator with qualifications and experience acceptable to the Association.

(b) maintain within PMU the positions of Project Administrator, whose functions and responsibilities are described in the POM, administrative and financial specialist, monitoring and evaluation specialist, and accountant and ensure that they are filled at all times during the implementation of the Project, with persons with qualifications and experience acceptable to the Association, selected in accordance with the provisions of Section II of Schedule 3 to this Agreement; and

(c) maintain until the completion of the Project, a computerized accounting and financial management system acceptable to the Association, for the purpose of carrying out and monitoring the Project.

#### 8. Sustainable Performance in Service Delivery Fund

(a) The Borrower shall adopt, no later than August 31, 2000 an adequate performance incentive system, satisfactory to the Association, including the legal, institutional and operational framework necessary for the establishment and operation of a SPISDF managed by PMU. This framework shall include the legal basis for the operation of the SPISDF and a manual of procedures detailing the types of awards and modalities of their distribution, the performance criteria and standards, evaluation guidelines and procedures applicable to the SPISDF's operations.

(b) PMU shall be given the necessary legal authority to manage the SPISDF and distribute Performance Grants and Performance Awards.

(c) Before distributing any Performance Grants or Awards, PMU shall measure performance, through a systematic evaluation process based partly on beneficiary satisfaction surveys, against performance benchmarks and, where feasible, agreed work plans. The criteria that would govern the award of Performance Grants and Awards would depend on the target recipients as well as the behaviors that the performance incentive system would be seeking to encourage in the Beneficiaries. PMU shall not use the proceeds of the Credit to distribute any cash awards to individuals.

(d) Performance Grants shall be awarded to Prefectures, CRDs, and Districts with a demonstrated record of superior performance in service delivery on the basis of criteria that shall include: community motivation and participation in project identification and implementation; transparent project management and technical quality of project output.

(e) A Performance Grant may not exceed the equivalent of \$30,000 or any other amount as may be specified in the manual of procedures of the SPISDF, and shall only be disbursed subject to submission by the Beneficiary of a SPISD Subproject designed to further improve its effectiveness in service delivery and approval by PMU of such a Subproject, in accordance with the standards, criteria and procedures specified in the manual of procedures of the SPISDF.

(f) In financing SPISD Subprojects, PMU shall enter into a Performance Grant Agreement with the Beneficiary, under terms and conditions which shall include the following:

(g) the obligation to carry out the SPISD Subproject in accordance with the manual of procedures of the SPISDF, 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 SPISD Subproject;

(h) the requirement that: (i) the goods, works and services to be financed from the proceeds of the Credit shall be procured in accordance with procedures acceptable to the Association, and (ii) such goods, works and services shall be used exclusively in the carrying out of the SPISD Subproject;

(i) the right of PMU to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the SPISD Subproject, the operations thereof and any relevant records and documents;

(j) the right of PMU to obtain all information as PMU or the Association shall reasonably request regarding the administration, operation and financial conditions of the SPISD Subproject;

(k) the right of PMU to suspend or terminate the right of the Beneficiary to use the proceeds of the Credit for the SPISD Subproject upon the failure by the Beneficiary to perform any of its obligations under the Performance Grant Agreement; and

(l) the rights and obligations of any agency which will execute the SPISD Subproject on behalf of the Beneficiary.

[Redacted]