

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3851-DOM

Development Credit Agreement

(Economic Recovery Support Operation)

between

THE COMMONWEALTH OF DOMINICA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 30, 2004

Public Disclosure Authorized

CREDIT NUMBER 3851-DOM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 30, 2004, between THE COMMONWEALTH OF DOMINICA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter, dated January 5, 2004 (the Development Policy Letter), describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (the Program), declaring the Borrower's commitment to the objectives of the Program and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, *inter alia*, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in a single tranche (the Credit) as hereinafter provided;

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) Section 2.01, paragraph 12, is modified to read:

“‘Project’ means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.”;

(b) Section 4.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.”;

(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions”;

(d) the last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”; and

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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) “Companies Act” means the Borrower’s Companies Act of 1994, as such Act has been amended to the date of the Agreement;

(b) “Cooperatives Act” means the Borrower’s Co-operative Societies Act of 1996, as such Act has been amended to the date of the Agreement;

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

(d) “Dominica Social Security” means the Borrower’s publicly administered social insurance system;

(e) “ECCB” means the Eastern Caribbean Central Bank, the monetary authority for a group of eight countries, including the Borrower, established through the Eastern Caribbean Central Bank Act of 1983, and passed into law by the eight participating countries, including the Borrower;

(f) “MOFP” means the Borrower’s Ministry of Finance and Planning or any successor thereto;

(g) “NCB” means the Borrower’s National Commercial Bank of Dominica or any successor thereto;

(h) “NCB Act” means the Borrower’s National Commercial Bank Act of 1976, as such Act has been amended to the date of this Agreement;

(i) “PSIP” means public sector investment program; and

(j) “RCCU” means the Roseau Cooperative Credit Union, established in 1951.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to two million one hundred thousand Special Drawing Rights (SDR2,100,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in the Eastern Caribbean Central Bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

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 cancelled; 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, 2014, and ending September 15, 2038. Each installment to and including the installment payable on September 15, 2023 shall be one and one-fourth

percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) 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 the Association 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

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Events of Suspension

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified: (a) the Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program; and (b) an action has been taken or a policy has been adopted to reverse any action or policy under the Program (including any action or policy listed in Schedule 2 to this Agreement) in a manner that would, in the opinion

of the Bank, after consultation with the Borrower, adversely affect the achievement of the objectives of the Program.

ARTICLE V

Termination

Section 5.01. The date April 26, 2004 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

Section 6.01. The Minister of Finance and Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Planning
Financial Complex, 5th floor
Roseau, Commonwealth of Dominica

Facsimile: (767) 4480054

For the Association:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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

THE COMMONWEALTH OF DOMINICA

By /s/ Judith Anne Rolle

Authorized Representative

INTERNATIONAL DEVELOPMENT
ASSOCIATION

By /s/ David de Ferranti

Regional Vice President
Latin America and the Caribbean Region

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble to this Agreement

1. The Borrower has taken the following actions to improve its financial management: (a) established a cash and commitment management system by issuing, through its Ministry of Finance and Planning, internal memoranda to all ministries to establish expenditure and commitment limits for line ministries, department and agencies of the Borrower; (b) reduced the number of ministerial bank accounts; and (c) appointed an internal auditor to ensure the implementation of new financial management procedures at the ministry level.
2. The Borrower has taken the following actions to improve debt management: (a) has established a cash and debt management unit in its Ministry of Finance and Planning, responsible for the management of both external and domestic debt; and (b) issued a cabinet decision adopting a medium term debt strategy.
3. The Borrower has taken the following actions to improve the management of public investment: (a) adopted a three-year PSIP; (b) issued new procedures for the planning and administration of the PSIP, which procedures establish clear criteria for project selection; (c) established a single project supervisory committee to oversee the PSIP; and (d) publicized the first quarterly report on the execution of its fiscal year 2003-2004 PSIP as required by the procedures mentioned in subparagraph (b) of this paragraph.
4. The Borrower has adopted and started implementation of a medium-term public sector reform strategy to achieve greater cost efficiency and effectiveness of public service delivery focusing on: (a) modernizing public sector administration; (b) strengthening expenditure management; (c) enhancing the enabling environment for private investment; and (d) rationalizing social service delivery.
5. The Borrower has taken the following actions to strengthen the operations of NCB: (a) repealed the NCB Act and registered NCB under the Companies Act; and (b) reduced the Borrower's shareholding in NCB to less than 50%, and applied a significant share of the proceeds of such reduction to repay the Borrower's arrears to NCB and DSS.
6. The Borrower has caused NCB to: (a) adopt a program of actions and timetable, approved by ECCB, to reduce the share of non-performing loans in its portfolio by 3 percent of loans and advances during 2004 pursuant to the Memorandum of Understanding signed between ECCB and NCB on April 2, 2003; (b) establish new by-laws with specific procedures for the appointment and election of the NCB board of

directors which preclude the appointment of a majority of the directors and of the Chairman by the Borrower; and (c) elect a new NCB board of directors according to the by-laws established in (b) above.

7. The Borrower has taken the following actions to improve supervision in the cooperatives sector: (a) submitted to Parliament an amendment to the Cooperatives Act to vest MOFP with the responsibility for supervision and financial regulation of credit unions; (b) carried out a joint (ECCB, MOFP and the Cooperatives Department) inspection of the RCCU; and (c) established a committee and a timetable for the revision of the existing cooperative regulations.

8. The Borrower has established a new mechanism for adjusting domestic prices of petroleum products in line with international price fluctuations, which includes regular price adjustments, a specific consumption tax, and uniform allowances for industry operators.

9. The Borrower, through its port authority, has reduced the cargo handling fees charged by the Borrower's port authority by at least 25%.

10. The Borrower has remained current on employer and employee contributions to the Dominica Social Security since July 2003.