

CREDIT NUMBER 3446 SE

Development Credit Agreement

(Social Development Fund Project)

between

REPUBLIC OF SENEGAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated

22 *fevrier*

, 2001

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated _____, 2001, between REPUBLIC OF SENEGAL (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) 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;

(B) the Association has received a document dated December 23, 1997, from the Borrower, describing a program of actions, objectives and policies (the Program) designed to strengthen the Borrower's efforts and strategies aimed at reducing the incidence of poverty, specifically with respect to the most vulnerable social groups, and declaring therein the Borrower's commitment to the execution of the Program;

(C) the Project will be carried out by the Social Fund Management Association (SFMA) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement available to SFMA, as set forth in this Agreement;

(D) the Borrower has requested that the Association support its execution of the Program through a series of credits over a period of ten years, the proceeds of such credits to be utilized by the Borrower for the implementation of the Program; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and SFMA;

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,

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Beneficiary Community" means any community group in the territory of the Borrower to whom a Beneficiary Grant (as hereinafter defined) is made, or proposed to be made, under the Project;

(b) "Beneficiary Grant" means a grant made, or proposed to be made, by SFMA (as hereinafter defined) through a Financing Agreement to be made to a Beneficiary Community for the financing of a MicroProject (as hereinafter defined) under Part A of the Project;

(c) "Community Based Organization" and "CBO" mean a group of individuals of a particular community in the Borrower's territory which is responsible for the development of a Subproject (as hereinafter defined) for the carrying out of an Income Generating Activity (as hereinafter defined) and which is the recipient of an IGA Grant (as hereinafter defined) for the financing of such Subproject;

(d) "Donor" means any country, government or multilateral agency, public or private financial institution, development finance institution or international organization, which is proposing to make, or has made, financing available to the Borrower on concessional terms to support a development program of the Borrower;

(e) "DS" means the Directorate of Statistics of the Ministry Of Economy and Finance;

(f) "Financing Agreement" means the agreement to be entered into between SFMA (as hereinafter defined) and a Beneficiary Community for the purpose of carrying out a Microproject (as hereinafter defined) under Part A of the Project;

(g) "Fiscal Year" and "FY" mean the fiscal year of the Borrower commencing January 1 and ending December 31;

(h) "FCFA" means *Franc de la Communauté Financière d'Afrique*, the currency of the Borrower;

(i) "Implementing Agency" means an NGO (as hereinafter defined), individual technical expert or entity, responsible for: (i) the implementation of a Microproject (as hereinafter defined) under Part A.2 (d) of the Project, pursuant to a contract entered into between such Implementing Agency and a Beneficiary Community; and (ii) carrying out financial and banking transactions under Part B.2 (c) of the Project;

(j) "IGA Grant" means a grant made or proposed to be made to a CBO for the carrying out of Subproject for an Income Generating Activity in communities which are not served by existing PFIs (as hereinafter defined);

(k) "IGA Grant Agreement" means the Agreement entered into between a CBO and SFMA for the purpose of financing a Subproject for an Income Generating Activity;

(l) "Loan Agreement" means the Agreement to be entered into between a PFI (as hereinafter defined) and a Micro-Enterprise (as hereinafter defined) for the financing of an Investment Project, and "Loan" means a loan made or proposed to be made by a PFI to a Micro-Enterprise;

(m) "Microproject" means a specific project in social services or infrastructure to be carried out by a Beneficiary Community utilizing the proceeds of a Beneficiary Grant made under Parts A.1 and A.2 (d) of the Project;

(n) "Micro-Enterprise" means a private enterprise of the formal or informal sector, an individual entrepreneur, merchant, farmer or any person or entity to which a PFI proposes to make a loan using the proceeds of the Credit;

(o) "MIS" means the Information and Monitoring System to be established for project implementation under Part D of the Project;

(p) "NGO" means a Non Governmental Organization operating under the laws of the Borrower;

(q) "Participation Agreement" means the Agreement to be entered into between SFMA and a PFI pursuant to which proceeds of the Credit shall be made available to the PFI for the financing of capacity building activities, including training and development of accounting software, in order to increase provision of microfinance services to the poor and VG under the Project;

(r) "Participating Finance Institution" or "PFI" means a financial institution, commercial bank or savings and credit association (SCA) which has met the eligibility criteria set out in the Procedures Manual and which is the recipient of a PFI Grant out of the proceeds of the Credit;

(s) "PFI Grant" means the grant made or proposed to be made by SFMA (as hereinafter defined) to a PFI (as hereinafter defined) for capacity building activities, including training and installation of accounting and monitoring software as recorded in the Participation Agreement (as hereinafter defined) to be concluded between SFMA (as hereinafter defined) and the concerned PFI;

(t) "Procedures Manual" means the manual referred to in Section 6.01 (f) of this Agreement consisting of different modules setting out respectively, inter alia, the administrative, financial and accounting procedures, the procurement and disbursement procedures, eligibility criteria for Beneficiary Communities, PFIs, Microprojects, Subprojects for Income Generating Activities, terms and conditions for Beneficiary Grants and IGA Grants, including procurement and accounting procedures thereof, training plans and capacity building programs and other activities and arrangements to be used for the purpose of implementing the Project, to be adopted by the Borrower no later than the Effective Date pursuant to Section 6.01 (f) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Procedures Manual;

(u) "Project Account" means the account referred to in Section 3.06 of this Agreement;

(v) "Project Agreement" means the agreement between the Association and SFMA of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(w) "Project Implementation Plan" or "PIP" means the project implementation plan referred to in paragraph A1 (b) of Schedule 2 to the Project Agreement, to be furnished to the Association no later than the Effective Date, as referred to in Section 6.01 (e) of this Agreement;

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

(y) "Project Preparation Advances" means both project preparation advances granted by the Association to the Borrower pursuant to: (i) the letter agreement signed between the Association and the Borrower on February 11, 2000; and (ii) the letter agreement for a supplemental project preparation advance signed between the Association and the Borrower on November 13, 2000;

(z) "Project Year" and "PY" mean each twelve month period during Project Implementation starting from the date after the Effective Date;

(aa) "RSFU" means the Regional Social Fund Unit, any and all of the regional units of the SFMU;

(bb) "Microfinance Support Unit" or "MSU" means the Microfinance Support Unit part of the SFMU and responsible for managing IGA Grant Agreements;

(cc) "Community Development Support Unit" means the Community Development Grant Unit, a unit of the SFMU responsible for managing Beneficiary Grant Agreements;

(dd) "SFMA" means the Social Fund Management Association, a non profit company operating pursuant to its charter dated November 3, 2000 and established to coordinate and manage the implementation of the Social Development Fund Project;

(ee) "SFMU" means the Social Fund Management Unit, the executive arm of the SFMA responsible for managing the Social Development Fund Project at the national level;

(ff) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(gg) "Subproject" means a specific development project to be carried out by a CBO utilizing the proceeds of an IGA Grant, referred to in Part B.2 (b) of the Project;

(hh) "Subsidiary Administration Agreement" means the agreement to be entered into between the Borrower and SFMA for the purposes of implementing the Project, pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Administration Agreement;

(ii) "Technical Committee" means the screening committee established in each territorial subdivision of the Borrower (*département*), for the purposes of analyzing a

Microproject or a Subproject for an IGA related to the attribution of a Beneficiary Grant or an IGA Grant respectively; and

(jj) "VG" means Vulnerable Groups, or groups of population in the Borrower's territory determined to be the most vulnerable in terms of poverty, pursuant to criteria defined in the Procedures Manual and including mainly women, youths and other socially marginalized groups.

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 twenty three million six hundred thousand Special Drawing Rights (SDR 23,600,000).

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 goods and services required for the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) by SFMA on account of withdrawals made for the benefit of a Beneficiary under a Beneficiary, IGA or PFI Grant to meet the reasonable cost of goods and services required for a Microproject, a Subproject for an IGA, or pursuant to a Participation Agreement to be financed under Parts A and B, respectively, of the Project, and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes the Project, open and maintain in FCFA 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 3 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advances 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 Advances shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 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 February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 1 and August 1 commencing February 1, 2011 and ending August 1, 2040. Each installment to and including the installment payable on August 1, 2020 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 French Republic is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause SFMA to perform in accordance with the provisions of the Project Agreement all the obligations of SFMA therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable SFMA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make available to SFMA for the purposes of the Project the proceeds of the Credit under a Subsidiary Administration Agreement to be entered into

between the Borrower and SFMA, under terms and conditions which shall have been approved by the Association which shall include, *inter alia*:

- (i) provisions by which SFMA shall make available on a grant basis and for purposes of Part B.1 (d) of the Project, an amount equivalent to SDR 400,000 to PFIs for the financing of capacity building activities, including training, acquisition or rehabilitation of accounting software and installation of a Management Information System;
- (ii) provisions by which SFMA shall make available on a grant basis and for purposes of Part B.2 (b) of the Project, an amount equivalent to SDR 2,000,000 to selected CBOs for the carrying out of Income Generating Activity Projects; and
- (iii) provisions by which SFMA shall carry out the Project in accordance with the Procedures Manual and the Project Implementation Plan.

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

Section 3.02. Without limitation to the provisions of Section 3.01 (a) of this Agreement, the Borrower shall cause SFMA to carry out the Project in accordance with the provisions of the Procedures Manual and the Project Implementation Plan.

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 1 to the Project Agreement.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the sustainability of the Project; and

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

Section 3.05. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by SFMA pursuant to Section 2.03 of the Project Agreement.

Section 3.06. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower, for the purposes of making available its counterpart contribution to the financing of the Project, shall:

(a) open and maintain, for the duration of the Project, an account (the Project Account) in FCFA in a commercial bank on terms and conditions satisfactory to the Association;

(b) promptly thereafter, make an initial deposit into the Project Account, in an amount equivalent to FCFA 100,000,000 to finance the Borrower's contribution to the Project;

(c) thereafter deposit into the Project Account by March 31 in each Fiscal Year during Project implementation such amount as shall be required to timely replenish the Project Account back to the amount of the initial deposit referred to in paragraph (b) above; and

(d) ensure that amounts deposited into the Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods and services for the Project in addition to those financed from the proceeds of the Credit.

Section 3.07. The Borrower shall assume responsibility for financing, on a progressive basis, recurrent costs of SFMA and poverty data MIS in order to finance 50% of such costs at end of second phase and 100% at end of third phase of the Program.

ARTICLE IV

Financial Covenants

Section 4.01 (a) 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 sound accounting practices, records and separate accounts reflecting such expenditures;

- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and
 - (iii) enable the Association's representatives to examine such records.
- (b) The Borrower shall:
 - (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; 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.

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, not later than 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, not later than 45 days after the end of each calendar quarter, a Project Management Report for such period.

ARTICLE V

Remedies

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

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

(b) SFMA shall have failed to perform any of its obligations under the Project Agreement; and

(c) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that SFMA will be able to perform its obligations under the Subsidiary Administration.

Section 5.02 Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified: (a) that Section 5.01 paragraph (a) of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given to the Borrower; and

(b) that Section 5.01 paragraph (c) this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given to the Borrower.

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 pursuant to Section 3.06 (a) of this Agreement and has deposited therein the initial deposit referred to in Section 3.06 (b) of this Agreement;

(b) the Subsidiary Administration Agreement referred to in Section 3.01 (b) has been executed on behalf of the Borrower and SFMA;

(c) the Borrower has established the accounting and financial management system for the Project referred to in Section 4.01 of this Agreement, satisfactory to the Association;

(d) the Borrower has appointed external auditors with qualifications and experience satisfactory to the Association and has employed them in accordance with the provisions of Section II of Schedule 1 to the Project Agreement for purposes of auditing the financial statements, the Beneficiary Grant and IGA Grant activities and the internal controls of SFMA;

(e) the Borrower has adopted the Project Implementation Plan referred to in paragraph A.1 (b) of Schedule 2 to the Project Agreement, in form and substance satisfactory to the Association;

(f) the Borrower has adopted the Procedures Manual in form and substance satisfactory to the Association;

(g) the Borrower has appointed key personnel to SFMA with qualifications and experience satisfactory to the Association including a Director, an Administrative and Financial Officer, a Microfinance Officer, a Monitoring and Evaluation Officer, 5 Procurement Officers, an Officer in charge of Community-Based Organizations, and has employed them all in accordance with the provisions of Section II Part C 2 of Schedule 1 to the Project Agreement; and

(h) the Borrower has completed the procurement plan for the first two years of Project implementation, satisfactory in form and substance to the Association.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by SFMA and is legally binding on SFMA in accordance with its terms; and

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

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01 The Minister of the Borrower 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:

Ministry of Economy and Finance
B.P. 4017
Rue René N'diaye
Dakar, Senegal

Cable address:	Telex:
MINIFINANCES	3203G

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (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.

REPUBLIC OF SENEGAL

By

/s/ Mameadou Mansour Sene

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Theodore Athler

Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	150,000	85%
(2) Goods	4,000,000	100% of foreign expenditures and 85%% of local expenditures
(3) Consultants' services, training, and studies	4,650,000	100%
(4) Beneficiary Grants		
(a) social services Microprojects	2,000,000	100% of amounts disbursed
(b) Infrastructure Microprojects	4,100,000	95% of amounts disbursed
(5) PFI Grants & IGA Grants	2,400,000	90% of amounts disbursed
(6) Operating expenses	3,200,000	85%
(7) Refunding of Project Preparation Advances	850,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	2,250,000	
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TOTAL	23,600,000	
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "operating expenses" means the incremental expenses incurred on account of Project implementation, including audits, office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs, salaries of locally contracted employees, but excluding salaries of officials of the Borrower's civil service.

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

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

(b) Category 3, unless a Financing Agreement has been entered into between SFMA and a Beneficiary Community; and

(c) Category 4, unless: (i) at least a minimum of 2 Participation Agreements shall have been entered into between SFMA and 2 PFIs; and (ii) IGAs Grants shall have been made in accordance with the procedures and the terms and conditions referred to in Schedule 2 to the Project Agreement and set forth in detail in the Procedures Manual, as shall be evidenced by the first such 3 IGA Grant Agreements furnished to the Association for its prior approval.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) works under contracts costing less than \$100,000 equivalent each; (c) services under contracts costing less than \$75,000 equivalent each for consulting firms and less than \$30,000 equivalent each for individual consultants; (d) training programs and studies under contracts costing less than \$30,000 equivalent each; and (e) operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in implementing its Program through: (i) increasing access of the poor to basic social services; (ii) increasing access of the poor to micro-finance products and services; (iii) building capacities in all beneficiaries and financial intermediaries involved in the Project; and (iv) building institutional capacity for the management, monitoring and evaluation of the poverty strategy of the Borrower.

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: Access of the Poor to Basic Social Services and Community Infrastructure

1. Facilitating access of the poor to basic social services through:

(a) the establishment of an institutional system and monitoring and evaluation thereof to be implemented in targeted regions, including the establishment of an institutional system for the appraisal of MicroProjects;

(b) carrying out a selection process for about 400 pilot communities upon which the tools and procedures to be used for the Project shall be tested, including relevant procedures of the Procedures Manual;

(c) carrying out of: (i) various training programs, including, Microproject management; and (ii) capacity building activities for targeted community individuals and groups;

(d) implementation of about 400 development Microprojects on a pilot basis through the provision of Beneficiary Grants to be made to Beneficiary Communities; and

(e) preparation of scale up activities for further implementation of the Project;

2. Developing community-based mechanisms for the provision of community infrastructure through:

(a) the establishment of an institutional system and monitoring and evaluation thereof to be implemented in targeted regions, including the establishment of an institutional system for the appraisal of Microprojects;

(b) carrying out a selection process for about 150 pilot communities upon which the tools and procedures to be used for the Project shall be tested, including relevant procedures of the Procedures Manual;

(c) carrying out training programs in: (i) standard design and technical specifications for the construction of selected infrastructure; and (ii) procurement and supervision of civil works;

(d) carrying out of about 150 development Microprojects on a pilot basis through the provision of Beneficiary Grants to be made to Beneficiary Communities; and

(e) preparation of scale up activities for further implementation of the Project.

Part B: Access to Microfinance Activities by Micro-enterprises and VG

1. Establishing the microfinance system by developing a contractual mechanism between PFIs, and SFMA through:

(a) establishment of MSU for the management and monitoring of signed agreements concluded between SFMA and PFIs;

(b) determining communities which can be served by existing PFIs and those which are not served by existing PFIs;

(c) provision of technical advisory services to SFMA and PFIs for the establishment of the microfinance system and provision of support for testing the capacity building activities, including dissemination of the Procedures Manual to the PFIs, in relation thereto; and

(d) provision of PFI Grants for building capacities of PFIs to develop or increase financial services to the poor and VG, including training of PFIs staff and development of their accounting and monitoring software.

2. Developing alternative access to microfinance for identified communities not served by existing PFIs through :

(a) provision of technical advisory services for: (i) training about 400 selected CBOs for the preparation of their IGAs; and (ii) contracting out to Implementing Agencies the carrying out of their IGAs, if necessary;

(b) provision of IGA Grants to CBOs;

(c) establishment or strengthening of village banks or savings and credit associations (SCA) in communities not served by exiting PFIs and where the carrying out of IGAs is contemplated;

(d) supporting the testing of capacity building activities on selected CBOs and the evaluation thereof, including dissemination in such Communities of relevant provisions of the Procedures Manual; and

(e) preparation of scale up activities for further implementation of the Project.

Part C: Capacity building for VG, Beneficiary Communities and CBOs

Providing training to all partners in Project implementation through Grassroots Management Training Methodology, including SFMA staff, savings and credit associations, PFIs, CBOs and Implementing Agencies, for the establishment or strengthening of community based networks through:

1. Developing programs for trainers through :

(a) carrying out training needs assessments in 5 regions;

(b) training about 10 senior trainers to enable them to carry out training sessions for PFIs staff, and members of BCs and CBOs, and developing related trainers' manuals;

(c) training junior trainers working at grassroot level, including community leaders, local civil servants, NGO's staff and VG, to enable them to carry out training programs to communities; and

(d) development of training materials in local languages.

2. Establishing or strengthening community-based networks and improving the skills of the poor to implement and manage IGAs, Microprojects and Subprojects through provision of IGA Grants or Beneficiary Grants to individuals and groups in the communities for the carrying out of training programs and activities related to organizational development, communication and project management, including training in managerial, financial and technical capacities for the design and implementation of IGAs, Microprojects and Subprojects.

Part D: Development of a Poverty Reduction Management System

1. Strengthening the Borrower's poverty management capacity through the provision of
(i) technical advisory services for the carrying out of various surveys, assessments, poverty maps, poverty data collection and analysis, to encompass all projects carried out in the territory of the Borrower, including the dissemination of information thereof to all concerned branches of the Government and territorial subdivisions of the Borrower, and
(ii) support to the establishment and operation of related MIS software.
2. Supporting the institutional development and management activities of SFMA through:
 - (a) establishing and operating the institutional system, including:
(i) establishing MSU for the management of Part B of the Project; (ii) establishing the Community Development Support Unit for the management of Parts A and C of the Project;
 - (b) developing and installing a specific module of the MIS related to resources managed by SFMA;
 - (c) monitoring and evaluating the activities of SFMA based on specific performance criteria set out in the Procedures Manual;
 - (d) establishment of policy and procedures for the dissemination of information on the implementation of the Project to other Donor's financed social fund programs; and
 - (e) developing coordination of all Donors' activities for poverty assistance in the Borrower's territory.

* * *

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2, 3, 4 (a), 4 (b), 5 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 and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to FCFA 1,500,000,000 to be withdrawn from the Credit Account and deposited into the Special Accounts 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 FCFA 750,000,000 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 be equal to or exceed the equivalent of SDR 3,000,000.

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 Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or 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. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of 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 Credit 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 Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Credit 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the

Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of 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 Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.