

CONFORMED COPY

CREDIT NUMBER 2797 KE

Development Credit Agreement

(Arid Lands Resource Management Project)

between

REPUBLIC OF KENYA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 13, 1996

CREDIT NUMBER 2797 KE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 13, 1996, between REPUBLIC OF KENYA (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 letter dated May 4, 1995 from the Borrower describing a program of actions, objectives and policies designed to improve the living standards of pastoralists and other people living in the Project Area (hereinafter called 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;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to

Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Microproject" means a small-scale activity to be carried out by beneficiary communities and financed under the Credit;

(b) "Midterm Review" means the review to be carried out pursuant to Section 3.11 of this Agreement;

(c) "Pilot Phase" means activities, including Microprojects to be carried out in the following four districts: Turkana, Baringo, Mandera and Wajir, under Part C of the Project;

(d) "Project Area" means the arid districts of Turkana, Marsabit, Mandera, Wajir, Garissa, Tana River, Isiolo, Samburu and the arid divisions of Baringo District;

(e) "Project Implementation Plan" means the plan referred to in Section 3.01 (b) of this Agreement and adopted pursuant to the provisions of Section 6.01 (e) to this Agreement;

(f) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated May 4, 1994 and August 29, 1994 between the Borrower and the Association; and

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

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 fourteen million eight hundred thousand Special Drawing Rights (SDR 14,800,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

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

Section 2.03. The Closing Date shall be September 30, 2001 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent (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) and (c) 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, 2006 and ending August 1, 2035. Each installment to and including the installment payable on August 1, 2015 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms

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

Section 2.08. The currency of the 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 arid land management, land tenure and sound environmental 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 Project Implementation Plan in a manner satisfactory to the Association. The said plan shall at all times: (i) be satisfactory to the Association; and (ii) cover all components of the Project, subject to modifications based on implementation experience and the Midterm Review referred to in Section 3.10 of this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) on the basis of guidelines acceptable to the Association, prepare 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 for the future operation of the Project. Such plan shall include, inter alia, the integration of the Drought Management Secretariat referred to in Part A.1 of Schedule 2 to this Agreement and the subunits dealing with drought management in the District Project Support Units into the regular civil service structure of the Borrower;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

Section 3.04. The Borrower shall, not later than December 31, 1996, establish and thereafter maintain the Drought Contingency Fund referred to in Part A (f) of the Project under terms and conditions satisfactory to the Association.

Section 3.05. The Borrower shall, not later than December 31, 1996, establish and thereafter maintain an Emergency Cereal Reserve referred to under Part A.2 (g) of Schedule 2 to this Agreement under terms and conditions

satisfactory to the Association.

Section 3.06. The Borrower shall: (a) not later than April 15 of every year, submit to the Association for review and comments a training plan for the following year; and (b) implement such training plan taking into account the views of the Association.

Section 3.07. The Borrower shall: (a) not later than December 31, 1997, complete the study of laws and regulations pertaining to the development of arid lands referred to in Part E of Schedule 2 of this Agreement; (b) submit thereafter to the Association for review and comments the findings of such study; and (c) thereafter implement the recommendations of the study within a time frame acceptable to the Association, taking into account the views of the Association.

Section 3.08. In carrying out Part C of the Project, the Borrower shall: (a) for the first four years of the Project, implement Microprojects on a pilot basis in four selected districts in the Project Area; and (b) ensure that communities implementing Microprojects: (i) contribute at least 30% of the cost of each Microproject, and (ii) follow procurement procedures satisfactory to the Association.

Section 3.09. The Borrower shall: (a) not later than December 31, 1997, and (b) every year thereafter, carry out, under terms of reference satisfactory to the Association, an evaluation of the impact of the Community Development component of the Project, referred to in Part C of the Project, on the lives of the people in the Project Area. This evaluation shall cover, among other things: (i) the type of training and number of trainees; (ii) the number of Microprojects presented, approved, started and implemented; and (iii) the relative success of the various types of Microprojects.

(c) In order to assist the Borrower in the carrying out of the evaluation referred to in (a) and (b) above, the Borrower shall, not later than June 30, 1996, carry out a baseline survey of the socioeconomic conditions of the people in the Project Area in a manner satisfactory to the Association.

Section 3.10. The Borrower shall: (a) not later than December 31, 2000, carry out an evaluation of the impact of the Project and the Program in a manner provided in Section 3.09 of this Agreement; and (b) soon thereafter, furnish to the Association for review and comment the findings of such review.

Section 3.11. (a) The Borrower shall carry out jointly with the Association, not earlier than September 30, 1998 and not later than December 31, 1998, a Midterm Review of the progress made in carrying out the Project and the Program. This Review shall cover, among other things: (i) progress on drought management; (ii) progress on marketing and infrastructure; (iii) training; (iv) community development activities; (v) type and number of Microprojects; (vi) results and recommendations of the evaluation of the Community Development component carried out pursuant to Section 3.09 of this Agreement; (vii) benefits of improved market linkages; (viii) reduction in drought-inflicted losses; (ix) increase in the off-farm income-generation capacity; and (x) studies.

(b) The Borrower shall furnish to the Association, at least 90 days prior to the Midterm Review described in paragraph (a) above, a report, in scope and detail satisfactory to the Association, describing the status of the items listed in such paragraph and of Project and Program implementation generally.

(c) Based on such Midterm Review, the Borrower shall promptly prepare an action plan, acceptable to the Association,

for the further implementation of the Project and the Program, and shall thereafter implement such action plan.

(d) The action plan referred to in paragraph (c) above shall include a recommendation to expand the Community Development activities under Part C of the Project to all the districts in the Project Area until completion of the Project.

Section 3.12. In carrying out Part A.4 of the Project, the Borrower shall: (a) not later than March 31 of every year, cause the District Works Office in every district in the Project Area to prepare an annual road maintenance plan for the following year; and (b) thereafter provide the districts with adequate funds to implement the said road maintenance plan.

Section 3.13. For the purpose of implementing the Project at the district level, the Borrower and the Association shall monitor the operation and effectiveness of the district payment mechanism and review it as necessary. Should the joint review conclude that the payment mechanism is not effective, the Borrower shall, not later than three months after being notified by the Association, introduce and implement such modifications of the payment mechanism or of the applicable administrative and financial rules and procedures as may have been agreed upon with the Association.

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 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, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (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 or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely that a situation has 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 entered into a contract, satisfactory to the Association, with consultants to carry out the study referred to in Part E.2 of Schedule 2 to this Agreement;
- (b) the Borrower has furnished to the Association evidence, satisfactory to the Association, that the following Project officers, with qualifications satisfactory to the Association, have been recruited and have started work: (i) the National Project Coordinator, (ii) the Drought Management Coordinator, (iii) the Procurement Officer, (iv) the Finance Officer, and (v) at least four District Project Coordinators.
- (c) the Borrower has furnished to the Association evidence, satisfactory to the Association, that a financial management and accounting system for the Project, satisfactory to the Association, has been established and is functioning;
- (d) the Borrower has furnished to the Association evidence, satisfactory to the Association, that the national budget for the first year of Project implementation contains adequate funds to meet Project expenditures for that year;
- (e) the Borrower has adopted a Project Implementation Plan satisfactory to the Association;
- (f) the Borrower has finalized terms of reference, including pay scales, satisfactory to the Association, for Project staff; and
- (g) the Borrower has furnished to the Association:

(i) audited accounts, satisfactory to the Association, for the Emergency Drought Recovery Project (Credit No. 2460 KE); and (ii) statements of sources and application of funds allocated to Emergency Drought Recovery activities under the Rural Services Design Project (Credit No. 1974 KE), the Second National Extension Project (Credit No. 2199 KE) and the Animal Health Services Project (Credit No. 1758 KE), all audited in a manner satisfactory to the Association.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister for Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P.O. Box 30007
Nairobi, Kenya

Cable address:

FINANCE
Nairobi

Telex:

22921
MINFIN-KE

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

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

REPUBLIC OF KENYA

By /s/ Benjamin E. Kipkorir
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works	2,820,000	90%
(2) Vehicles and Equipment	2,410,000	100% of foreign expenditures and 90% of local expenditures
(3) Training and Consultants' Services	1,480,000	100%
(4) Goods, Works and Services for Micro- projects under Part C of the Project		
(a) For Pilot Phase Districts	1,140,000	70%
(b) After Midterm Review	540,000	70%
(5) Incremental Operating costs:		
(a) Vehicles Operations and Maintenance	1,210,000	90%
(b) Other Operations and Maintenance	3,950,000	90% for expenditures incurred before December 31, 1997, 80% for expen- ditures made before December 31, 1999 and 75% thereafter
(6) Refunding of Project Prepara- tion Advance	140,000	Amounts due pur- suant to Section 2.02 (c) of this Agreement
(7) Unallocated	1,110,000	

TOTAL 14,800,000
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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; and

(c) the term "incremental operating costs" means costs associated with vehicle maintenance, fuel, local staff costs for Project staff recruited under contracts, office maintenance and supplies.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for all incremental operating costs, local training, civil works by force account, and for goods, works and consulting firms under contracts not exceeding \$100,000 equivalent, for individual consultants not exceeding \$50,000 equivalent and all expenditures under Category 4 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: (a) reduce the widespread poverty and enhance food security in the Project Area; and (b) conserve the natural resource base in the arid lands through: (i) improving crop and livestock resilience to drought; (ii) increasing economic linkages with the rest of the economy; and (iii) improving basic health services, water supply and other social services.

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: Drought Management

1. Establishment of a Drought Management Secretariat to be responsible for:

(a) developing policy on drought management;

(b) preparation of national and district drought manuals;

(c) preparation of strategic plans for droughts and famines; and

(d) carrying out research on: (i) household vulnerability on droughts and ways of coping with droughts; (ii) land tenure systems in the Project Area; and (iii) herd movement, size and restocking.

2. Establishment of a District Support Unit in every district in the Project Area to be responsible for:

(a) the operation of a Drought Early Warning System;

(b) preparation of a district drought manual and

contingency plans;

(c) preparation of drought intervention plans and the implementation of drought mitigation plans;

(d) coordination and implementation of post-drought recovery measures;

(e) carrying out appraisals, monitoring and ex-post evaluations of recovery measures;

(f) establishment and maintenance of a Drought Contingency Fund to finance immediate drought mitigation interventions;

(g) establishment and maintenance of an Emergency Cereal Reserve to be used for emergency food relief; and

(h) carrying out other Project-related activities.

3. Establishment and maintenance of drought mitigation centers in selected areas and drought grazing reserves.

4. Improving maintenance of roads in the Project Area through the acquisition of spare parts for road equipment and tools for workshops.

Part B: Marketing and Infrastructure

1. Creating an enabling marketing environment to facilitate the movement of livestock and livestock products through:

(a) rehabilitation of stock routes, water points and other infrastructure facilities;

(b) development of new and rehabilitation of existing market-related infrastructure, including animal holding grounds, animal marketing centers and slaughter houses;

(c) improvement and strengthening of the Livestock Marketing Information System through the acquisition of radio communication equipment and a computer data system; and

(d) development of user-related initiatives in marketing of animals, including training in credit systems, animal health, hides and skins treatment, accounting and maintenance and operation of community facilities.

Part C: Community Development

1. Preparation and implementation of community-based Microprojects for:

(a) establishing and rehabilitating facilities for low-cost sustainable water supply schemes, human and animal health care delivery and integrated literacy, hygiene and nutrition programs;

(b) establishing woodlots for fuelwood;

(c) testing proven technological packages on water harvesting, controlled grazing, renewable energy and fuel-efficient cooking;

(d) training and orienting communities in resource conservation and maintenance, managing development initiatives, drought management and livestock routes; and

(e) other activities identified by the communities.

Part D: Training

1. Training of planners, policy-makers, field implementers, community leaders and other community members in Project implementation activities.
2. Developing appropriate curricula to conduct "under the tree" training courses for community members.
3. Training, including orientation courses, for middle- and senior-level civil servants on drought management, livestock marketing and community development programs.
4. Acquisition of library books, manuals, teaching aids and other educational equipment.

Part E: Studies

1. Carrying out a study on the degradation of the natural resource base and developing a policy and legal framework on natural resource conservation, including studies on: (i) regulations and practices on grazing rights; (ii) creating institutional and non-formal conflict-resolution mechanisms; (iii) testing improved desert resource management technologies; (iv) implications of sedentarization of stock routes and emergency grazing reserves; (v) implications of dry season grazing areas; (vi) regime of restriction of movement of cattle from the arid lands to other parts of the country; (vii) market information systems for livestock; and (viii) ways to involve the private sector in the establishment of slaughter houses.
2. Carrying out a review of laws and regulations pertaining to the development of arid lands, including a study on the land tenure system and development of instruments to protect and enforce the tenurial rights of pastoralists in the Project Area.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part D.1 (a) of this Section, the Association's prior approval will be required for: (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days, and (ii) any subsequent extension of the bid validity period.

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

2. To the extent practicable, contracts for vehicles and radios shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more, up to an aggregate amount equivalent to \$2,500,000.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Kenya may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil works estimated to cost the equivalent of \$250,000 or less for each contract, up to an aggregate amount equivalent to \$4,600,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Contracts for civil works for repairing roads estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$400,000, may be carried out by District Works Offices using force account.

3. Vehicles, computers, survey equipment, radio equipment and other equipment estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$1,200,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

4. Items or groups of items for goods estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount equivalent to \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

5. Contracts for Microprojects under Part C of the Project may be awarded on the basis of comparison of price quotations obtained from at least three suppliers or contractors eligible under the Guidelines or after direct negotiations with suppliers and contractors in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for civil works and goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

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

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

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, shortlists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, this exception to prior Association review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Association; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 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 \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 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 2,000,000.

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or 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, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of 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.

