

CONFORMED COPY

CREDIT NUMBER 3484 LSO

Development Credit Agreement

(Utilities Sector Reform Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 3, 2001

CREDIT NUMBER 3484 LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 3, 2001, between KINGDOM OF LESOTHO (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 (the Project), has requested the Association to assist in the financing of the Project;

(B) the Association has received a letter, dated October 27, 2001 (the Sector Policy Letter or SPL) from the Borrower describing a program of actions, objectives and policies designed to restructure the Borrower's utilities sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) Part A of the Project will be carried out by LESOTHO ELECTRICITY CORPORATION (LEC) with the Borrower's assistance and, as part of such assistance, the Borrower will make certain portion of the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to LEC, as further stipulated under the contractual arrangements referred to in Section 3.06 of this Agreement;

(D) the Borrower intends to contract from the African Development Bank (AfDB) a loan in an amount approximately equivalent to \$8,700,000 (the AfDB Loan) to assist

in financing the Project on terms and conditions set forth in an agreement to be entered into between the Borrower and AfDB (the AfDB Loan Agreement);

(E) the Borrower intends to receive from the European Union (EU) a grant in an amount approximately equivalent to \$200,000 (the EU Grant), to assist in financing the Project on terms and conditions set forth in an agreement to be entered into between the Borrower and EU (the EU Grant Agreement); 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 agreement of even date herewith between the Association and LEC (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(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) "Fiscal Year" or "FY" means the fiscal year of the Borrower which starts from April 1 of each calendar year through March 31 of the calendar year next following;

(b) "Interim Period" means the period of time running from February 1, 2001 through December 31, 2002, during which LEC's (as hereinafter defined) overall operations are carried out and managed in accordance with the provisions of the contractual arrangements referred to in Section 3.06 of this Agreement;

(c) "LEA" means the Lesotho Electricity Authority referred to in Section 3.05 of this Agreement;

(d) "LEC" means the Lesotho Electricity Corporation, a public enterprise established and operating pursuant to the Electricity Act No. 7 of 1969 of the Borrower as amended to date;

(e) "LTA" means the Lesotho Telecommunications Authority, a regulatory agency established and operating pursuant to the Telecommunications Authority Act No. 5 of

2000 of the Borrower;

(f) "MF" means the Borrower's Ministry of Finance;

(g) "MNR" means the Borrower's Ministry of Natural Resources;

(h) "MOC" means the Borrower's Ministry of Communications;

(i) "PIP" means the Project Implementation Plan adopted by the Borrower and containing, inter alia, guidelines, timetables, procedures and other arrangements for the purpose of implementing the Project; such term includes any schedules and amendments to the PIP as the same may be amended from time to time, in consultation with and with the consent of the Association;

(j) "Project Agreement" means the agreement between the Association and LEC 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;

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

(l) "Project Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to a first letter agreement dated on August 20, 1998 signed by the Association and countersigned by the Borrower on August 25, 1998; and a second letter agreement, dated October 12, 2000 signed by the Association and countersigned by the Borrower on October 19, 2000; and a third letter agreement dated February 8, 2001 signed by the Association and countersigned by the Borrower on March 9, 2001;

(m) "PU" means the Privatization Unit established by the Borrower pursuant to the provisions of paragraph 4 of Schedule 4 to Development Credit Agreement Number 2612 LSO dated February 1, 1995 and in accordance with the provisions of the Privatization Act No. 9 of 1995;

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

(o) "TCL" means the Tele-Communications Lesotho company, a commercial entity established and operating pursuant to the commercial laws of the Borrower.

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-two million two hundred thousand Special Drawing Rights (SDR 22,200,000).

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 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 5 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

canceled.

Section 2.03. The Closing Date shall be December 31, 2005 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 May 1 and November 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 May 1 and November 1 commencing May 1, 2011, and ending November 1, 2040. Each installment to and including the installment payable on November 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 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:

(i) shall carry out Part B, Part C, Part D and Part E of the Project through the PU with due diligence and efficiency and in conformity with appropriate administrative, financial, public utility and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and

(ii) without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause LEC to carry out Part A of the Project and to perform in accordance with the provisions of the Project Agreement all the obligations of LEC 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 LEC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

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

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

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

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association 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 and sustainability of the Project; and

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

Section 3.04. 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) in respect of Part A. of the Project shall be carried out by LEC pursuant to Section 2.03 of the Project Agreement.

Section 3.05. The Borrower shall, no later than June 30, 2003, establish and thereafter maintain LEA with functions and responsibilities acceptable to the Association and with staff in adequate numbers, whose qualifications and experience shall at all time be satisfactory to the Association.

Section 3.06. Without any prejudice to the provisions of Section 3.01 (a) (ii) of this Agreement, the Borrower shall maintain contractual arrangements acceptable to the Association, with a technical operator whose qualifications and experience shall

be satisfactory to the Association. The said contractual arrangements shall provide, inter alia, that full managerial autonomy for the conduct of LEC's day-to-day operations shall be vested with qualified experts and staff working directly under the responsibility and control of the technical operator.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall thereafter maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Part B, Part C, Part D and Part E of the Project.

(b) The Borrower shall:

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

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may 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 Project Management Reports or statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

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

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than December 31, 2002, 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 of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof will be carried out.

(b) LEC shall have failed to perform any of its obligations under the Project Agreement.

(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 LEC will be able to perform its obligations under the Project Agreement.

(d) The contractual arrangements referred to in Section 3.06 of this Agreement shall have been amended, suspended, abrogated, repealed or waived without any prior approval by the Association.

(e) The Electricity Act No. 7 of 1969 of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of LEC to perform any of its obligations under the Project Agreement.

(f) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the AfDB loan or the EU grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the AfDB Loan Agreement or the EU Grant Agreement; or

(B) the AfDB loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower

establishes to the satisfaction of the Association
that: (A) such suspension, cancellation, termination or
prematuring is not caused by the failure of the Borrower to
perform any of its obligations under such agreement; and (B)
adequate funds for the Project are available to the Borrower from
other sources on terms and conditions consistent with the
obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (a), (b), (c) and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower;

(b) any event specified in paragraph (e) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

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 AfDB Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled; and

(b) the Borrower has adopted the PIP in form and substance satisfactory to the Association.

Section 6.02. The following is specified as an additional matter, 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, namely, that the Project Agreement has been duly authorized or ratified by LEC, and is legally binding upon LEC 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.

Section 6.04. The obligations of the Borrower under Sections 3.05 and 3.06 of this Agreement and the provisions of paragraphs (a), (b), (c) and (d) of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date 20 years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower 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 Finance
P.O. Box 395
Maseru 100
Lesotho

Cable address:	Telex:	Facsimile:
FINMIN	4330 LO	266 31 01 57 266 31 06 22

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

KINGDOM OF LESOTHO

By /s/ Lebohang Moleko

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Fayez Omar

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works	80,000	100% of foreign

			expenditures and 95% of local expenditures
(2)	Goods	5,500,000	100% of foreign expenditures and 95% of local expenditures
(3)	Consultants' services	11,100,000	100%
(4)	Operating costs	600,000	90%
(5)	Refinancing of Project Preparation Advance	2,600,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6)	Unallocated	2,320,000	
	TOTAL	22,200,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than 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 "Operating costs" means expenditures incurred on account of Project implementation, management and monitoring including office consumables (such as communication expenses, tickets and subsistence costs for travel related to the Project, salaries for contractual staff, office rental, office supplies and maintenance, and fuel and maintenance for vehicles and equipment, but excluding salaries of the Borrower's civil servants.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made 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 made for: (a) civil works and goods not exceeding \$100,000 equivalent; (b) consulting firms under contracts not exceeding \$100,000 equivalent; and (c) individual consultants' services under contracts not exceeding \$50,000 equivalent, 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 contribute to the Borrower's efforts to improve the provision of efficient public utility services, i.e. electricity and telecommunications within the Borrower's territory so as to enhance the competitiveness of the Borrower's economy and its potential to attract further private sector investments into its territory.

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: Electricity Sector Reform

1. Design and implementation of a reform program aimed at: (a) stemming LEC's financial decline; (b) revamping LEC's technical capacity with a view to connecting up to 8,000 additional customers to the electricity grid; and (c) preparing LEC for its

transformation into a private sector and shareholding company.

2. Design and implementation of a staff redeployment plan aimed at: (a) assessing the right skill mix which is required to turn LEC into an efficient provider of electricity services within the Borrower's territory; (b) making a complete inventory of existing skills; (c) identifying required skills gaps; and (d) implementing all necessary measures required to endow LEC with commensurate skills required to improve its efficiency including through training, streamlining and appropriate redeployment of existing staff.

3. Provision of technical advisory services to improve the management of LEC's operations during the Interim Period.

Part B: Improvement of Electricity and Telecommunications Legal and Regulatory Frameworks and Institutional Capacity Building

1. Streamlining and upgrading of the legal and regulatory frameworks governing the provision of electricity and telecommunication services within the Borrower's territory so as to improve the competitiveness and efficiency of the Borrower's electricity and telecommunications sectors.

2. (a) Establishment of LEA; and (b) strengthening of the operational capacity of LEA and LTA through: (i) the provision of technical advisory services; (ii) upgrading training and on-the-job training for relevant staff in areas relating to the execution of the Project; and (iii) acquisition of office equipment and supplies and other appropriate logistical support.

3. Strengthening of MNR, MOC and MF's institutional capacity through the provision of appropriate technical advisory services and training.

4. Provision of technical advisory services required to transform LEC into a private sector shareholding company.

Part C: Expansion of Access to Electricity Supply

1. Carrying out of: (a) a comprehensive study to assess existing options for increasing the production of hydroelectric power within the Borrower's territory; and (b) a study aimed at improving the viability of the Muela hydroelectric plant.

2. Design and implementation of a pilot program aimed at expanding the supply of electricity services to selected under-served areas through: (a) the installation of about 3,000 grid connections; and (b) the installation of about 1,000 connections to stand-alone power generator schemes.

3. Design and testing of a scheme aimed at promoting income-generating activities within the under-served areas referred to in paragraph 2 above through the provision of support services to eligible entrepreneurs.

Part D: Facilitation of Domestic Participation in the Capital Structure of Public Enterprises to be Privatized

1. Design of a financial mechanism aimed at setting aside a portion of the capital stock of public enterprises to be privatized with a view to foster access to shareholding by potential domestic investors in the privatized enterprises.

2. Carrying out of the Borrower's ongoing privatization program through the provision of appropriate technical advisory services.

Part E: Logistical Support for the PU

1. Strengthening the performance of the PU through the provision of technical advisory services and appropriate logistics means.

2. Carrying out of selected studies aimed at expanding the development of private sector investments in the Borrower's economy.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, and works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$75,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the

required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to: (i) each contract for works estimated to cost the equivalent of \$50,000 or more, or goods estimated to cost the equivalent of \$100,000 or more; and (ii) the first two contracts for goods estimated to cost the equivalent of less than \$100,000, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-Based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The shortlist of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-Cost Selection

Services for financial audit estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Technical advisory services under Part B of the Project estimated to cost less

than \$50,000 equivalent per contract, and for training courses under Part B of the Project estimated to cost more than \$20,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

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

2. Prior Review

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

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

3. Post Review

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

SCHEDULE 4

Implementation Program

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

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the performance indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project; and

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

(i) not later than October 31 of each year, commencing on October 31, 2001, or such later date as the Association may agree, until the completion of the Project, the draft work programs (including those related to training activities, workshops and study tours) and budgets for the Project for the next Fiscal

Year; and

(ii) not later than June 30 of each year, or such later date as the Association may agree, commencing on June 30, 2002, until the completion of the Project, an annual report setting forth, inter alia, the progress achieved in the carrying out of the Project.

3. (a) By November 30, of each year, commencing November 30, 2002, or such later date as the Association may agree, until the completion of the Project, the Borrower and LEC and the Association shall carry out an annual review of the Project (hereinafter called the Annual Review); such Annual Review shall cover the progress achieved in the execution of the Project and, inter alia, review the information furnished in accordance with paragraph 2 (b) of this Schedule, and work programs to be carried out under the Project during the following FY.

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

4. (a) Not later than November 30, 2003, or such other date as the Borrower and the Association shall agree upon, the Borrower and LEC and the Association shall carry out a midterm review (hereinafter referred to as the Midterm Review). The Borrower shall take all actions it considers necessary to ensure the participation of AfDB and EU (collectively referred to hereinafter as the Donors), in such Midterm Review. Such Midterm Review shall cover the progress achieved in the implementation of the Project.

(b) Not later than one month prior to the Midterm Review, the Borrower and LEC shall furnish to the Donors including the Association, for their review and comments, a report, in such detail as the Association shall reasonably request, on the implementation of the Project.

(c) Following such Midterm Review, the Borrower and LEC shall act promptly and diligently in order to take any corrective action deemed necessary by the Association to remedy any shortcoming noted in the implementation of the Project and the Program, as the case may be, or to implement such other measures as may have been agreed upon among the Borrower and LEC and the Association in furtherance of the objectives of the Project.

5. The Borrower shall, until the completion of the Project, maintain the PU, with functions and membership satisfactory to the Association.

6. The Borrower shall: (a) carry out the studies referred to under Part E.2 of the Project; (b) not later than June 30, 2003, submit the results and recommendations of the said studies to the Association for its review and comments; (c) promptly take into account the comments and recommendations made by the Association; and (d) thereafter, implement the recommendations of the said studies as agreed and in accordance with the timetable agreed upon with the Association.

7. The Borrower shall: (a) design the financial mechanism referred to under Part D.1 of the Project not later than March 31, 2002; and (b) promptly thereafter take all measures required on its part, to implement the said financial mechanism.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) 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 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.

SCHEDULE 6

Performance Indicators

The Borrower shall from time to time, review jointly with the Association and LEC, the progress achieved in the execution of the Project inter alia through the following performance indicators:

1. The majority of LEC capital stock is held by a private sector investor by not later than December 31, 2002.

2. By December 31, 2002 no further subsidies are made by the Borrower with a view to sustaining LEC current operations.

3. The financial mechanism referred to under Part D 1 of the Project has been established and by June 30, 2003 at least 200 local investors have invested under the said mechanism.

4. (a) By October 31, 2001 at least 40% of LEC employees earmarked for retrenchment have been actually retrenched; (b) by March 31, 2002 at least an additional 30% of the said employees have been retrenched; and (c) by July 31, 2002, the remaining 30% of the said employees have been retrenched.

5. By December 31, 2004, the efficiency ratio in TCL stands at one employee per 100 telephonic lines.

6. (a) By July 31, 2001, LEC shall have increased its rate of revenue collection to 85% of outstanding bills; and (b) by December 31, 2001, the said rate of revenue collection shall have been increased and thereafter maintained at 95% of outstanding

bills.

7. (a) By December 31, 2002, TCL shall have connected 25,000 users to the telephonic network; and (b) by December 31, 2004, 15,000 additional users shall have been connected to the said network.

8. (a) By July 31, 2001, LEC shall have connected 2,000 users to the electricity grid; (b) by January 31, 2002, 3,000 additional users shall have been connected to the said grid; and (c) by July 31, 2002, 3,000 additional users shall have been also connected to the electricity grid.

