

CONFORMED COPY

CREDIT NUMBER 1898 LSO

(Urban Sector Reorientation Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 26, 1988

CREDIT NUMBER 1898 LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 26, 1988, 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, has requested the Association to assist in the financing of the Project;

(B) Part of the Project will be carried out by the Maseru Municipal Council (MMC), the Lesotho Housing and Land Development Corporation (LHLDC) and Lesotho Building Finance Corporation (LBFC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to MMC, LHLDC and LBFC the proceeds of the Credit as provided in this 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 Project Agreements of even date herewith between the Association and MMC, LHLDC and LBFC, respectively;;

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) "MICARD" means the Borrower's Ministry of Interior, Chieftainship Affairs and Rural Development;

(b) "MMC" means the Maseru Municipal Council, established pursuant to Section 4 of the Urban Government Act, 1983;

(c) "LHLDC" means the Lesotho Housing and Land Development Corporation, established pursuant to the Lesotho Housing and Land Development Corporation Order, 1988;

(d) "LBFC" means the Lesotho Building Finance Corporation, established pursuant to the Lesotho Building Finance Corporation Act, 1976;

(e) "LSPP" means the Department of Lands, Surveys and Physical Planning within MICARD;

(f) "DOH" means the Department of Housing within MICARD;

(g) "LHC" means the Lesotho Housing Corporation, a company established and operating pursuant to the Companies Act, 1967;

(h) "LEHCO-OP" means the Lower Income Housing Company (Proprietary) Limited, a company established and operating pursuant to the Companies Act, 1967;

(i) "MMC Project Agreement" means the Agreement between the Association and MMC 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 MMC Project Agreement;

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

(k) "LBFC Project Agreement" means the Agreement between the Association and LBFC 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 LBFC Project Agreement;

(l) "MMC Subsidiary Loan Agreement" means the Agreement entered into between the Borrower and MMC pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the MMC Subsidiary Loan Agreement;

(m) "LHLDC Subsidiary Loan Agreement" means the Agreement entered into between the Borrower and LHLDC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the

LHLDC Subsidiary Loan Agreement;

(n) "Subsidiary Loan Agreements" means the MMC Subsidiary Loan Agreement and the LHLDC Subsidiary Loan Agreement.

(o) "MMC Special Account" means the account referred to in this Agreement;

(p) "LHLDC Special Account" means the account referred to in this Agreement;

(q) "LBFC Special Account" means the account referred to in this Agreement;

(r) "FY" means fiscal year: April 1 through March 31 for the Borrower, MMC and LHLDC, and January 1 through December 31 for LBFC;

(s) "M" means maloti the Borrower's currency;

(t) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower, pursuant to an exchange of letters, dated June 26, 1987, and August 5, 1987, between the Borrower and the Association; and

(u) "Project Areas" are Maseru South and Thetsane.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to fifteen million Special Drawing Rights (SDR 15,000,000).

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 shall open and maintain in dollars the following special accounts (the Special Accounts) in a commercial bank on terms and conditions satisfactory to the Association:

- (i) MMC Special Account for the purposes of Parts A and C.1 of the Project;
- (ii) LHLDC Special Account for the purposes of Parts B.1 and C.2 of the Project; and
- (iii) LBFC Special Account for the purposes of Parts B.2 and C.3 of the Project.

Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedules 4, 5 and 6 respectively.

(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 December 31, 1994, 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 a 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; (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 as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988 shall be applied as of July 1, 1988.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 1 and September 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 March 1 and September 1 commencing September 1, 1998, and ending March 1, 2028. Each installment to and including the installment payable on March 1, 2008, 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 (5) 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) (i) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall carry out Parts C.4 through C.6 of the Project through MICARD, with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide promptly as needed, the funds, facilities, services and other resources needed for that purpose; and (ii) without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause MMC, LHLDC and LBFC to perform, in accordance with the MMC Project Agreement, the LHLDC Project Agreement and the LBFC Project Agreement, respectively, all the obligations of MMC, LHLDC and LBFC 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 MMC, LHLDC and LBFC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Credit, allocated to Parts A.2 and A.4 (b) of the Project, to MMC under a subsidiary loan agreement to be entered into between the Borrower and MMC, under terms and conditions which shall have been approved by the Association and which shall include, inter alia, that the proceeds of the Credit shall be relent at an interest rate of four percent (4%) per annum, for a term of 25 years including a grace period not exceeding five years.

(c) The Borrower shall relend the proceeds of the Credit allocated to Part B.1 (b) to LHLDC under a subsidiary loan agreement to be entered into between the Borrower and LHLDC under terms and conditions which shall have been approved by the Association, and which shall include, inter alia, that the proceeds of the credit shall be relent at an interest rate of at least eight percent (8%) per annum for a term of 25 years including a grace period not exceeding five years.

(d) The Borrower shall make the proceeds of the Credit for Parts A.1 and A.4 (a), B.1 (c) and C of the Project (except Parts C.4 through C.6 of the Project) available to MMC, LHLDC and LBFC, respectively, as grants.

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

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and works, 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. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall, except for Parts C.4 through C.6 of the Project, be carried out by MMC, LHLDC and LBFC, respectively, pursuant to Section 2.03 of their respective Project Agreements.

Section 3.04. The Borrower shall establish, by September 30,

1988, and maintain until completion of the Project, under terms and conditions satisfactory to the Association, a Project Management Team chaired by the Town Clerk and comprising the heads of all four departments in MMC, the Deputy Principal Secretary of MICARD, the Commissioner of Lands, the Managing Directors of LHLDC and LBFC and the Director of the Housing Department of MICARD.

Section 3.05. The Borrower shall, by not later than December 31, 1988, adopt a National Urban Housing Policy and Implementation Plan satisfactory to the Association.

Section 3.06. The Borrower shall by not later than September 30, 1988: (a) declare the Project Areas to be Selected Development Areas, pursuant to Section 44 of the Borrower's Land Act, No. 17 of 1979; and (b) prepare a standard format for leases, satisfactory to the Association, for sale of plots at Thetsane.

Section 3.07. The Borrower shall, by not later than September 30, 1988, furnish to the Association a satisfactory schedule and arrangements for the implementation of off-site infrastructure, not included in the Project, for Thetsane.

Section 3.08. The Borrower shall, by not later than September 30, 1988, furnish to the Association, for its review and comments, simplified procedures for the transfer of title in Thetsane, through MMC and LHLDC, to the Project beneficiaries.

Section 3.09. The Borrower shall, by December 31, 1988, amend its Land Act of 1979, to provide for the issuance of a revalidated form of tenure to be recognized as a primary form of title under the Act.

Section 3.10. The Borrower shall, through LSPP:

(a) carry out a program of tenure investigation, tenure revalidation and valuation for Maseru South and incorporate Maseru South into the tax roll by June 30, 1990;

(b) undertake a revaluation of Maseru covering all areas on the tax roll, including Thamaes and Maseru South, for implementation in the Borrower's FY 1992; and

(c) carry out a program of tenure investigation, tenure revalidation and valuation program for all the remaining peri-urban areas of Maseru and incorporate such areas into the tax roll by June 30, 1993.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall:

(i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the expenditures with respect to Parts C.4 through C.6 of the Project and

(ii) make such records and accounts available to MMC for the purposes of maintaining consolidated Project accounts.

(b) The Borrower shall:

(i) have the records and accounts, referred to in paragraph (a) of this Section 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 nine (9) months

after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts, referred to in paragraph (a) (i) of this Section and those for the Special Accounts for each fiscal year, audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish, to the Association as soon as available, but in any case not later than nine (9) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 4.03. The Borrower shall: (a) from FY 1988/1989 through FY 1992/1993 provide a subvention of one million maloti (M 1,000,000) to MMC; (b) by June 30, 1989, carry out a review to determine the steps leading to the phasing out of said subvention by the end of FY 1992/1993; (c) annually make a contribution of about six hundred and fifty thousand maloti (M 650,000) in FY 1988/1989 to MMC in lieu of rates for the Borrower's properties within the municipal area and thereafter increase such contribution annually by an amount based on valuation and tax increases in the area.

Section 4.04. The Borrower shall, by September 30, 1988,

transfer the balance of the property rates fund to MMC to provide MMC with adequate funds for working capital, capital investments and to cover any operating deficits.

Section 4.05. The Borrower shall: (a) by not later than September 30, 1988, have completed the transfer of the assets and liabilities of LHC and LEHCO-OP to LHLDC; and

(b) ensure that LHLDC is adequately capitalized to enable it to operate on a sound financial basis.

ARTICLE V

Remedies of the Association

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

(a) MMC, LHLDC or LBFC shall have failed to perform any of their respective obligations under the MMC Project Agreement, the LHLDC Project Agreement or the LBFC Project Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that MMC, LHLDC or LBFC, as the case may be, will be able to perform their respective obligations under the MMC Project Agreement, the LHLDC Project Agreement or the LBFC Project Agreement.

(c) The Urban Government Act, 1983, the LHLDC Order, 1988 and the LBFC Act, 1976 of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of MMC, LHLDC or LBFC to perform any of their respective obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of MMC, LHLDC or LBFC or for the suspension of their respective operations.

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

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the MMC and LHLDC Subsidiary Loan Agreements have been executed on behalf of the Borrower, MMC and LHLDC, respectively; and

(b) MMC has put in place the Project Manager and Accountant, and recruited the Project Adviser referred to in Section 2.06 of the MMC Project Agreement.

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

(a) that the MMC Project Agreement, the LHLDC Project Agreement and the LBFC Project Agreement have been duly authorized or ratified by MMC, LHLDC and LBFC, respectively, and are legally binding upon MMC, LHLDC and LBFC, respectively, in accordance with their terms; and

(b) that the Subsidiary Loan Agreements have been duly authorized or ratified by the Borrower, MMC and LHLDC, respectively, and are legally binding upon the Borrower, MMC and LHLDC respectively, in accordance with their terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of 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 395
Maseru 100
Lesotho

Cable address:

FINMIN
Maseru

Telex:

4367

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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ W. T. Van Tonder
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) MMC		
(a) Civil Works	6,080,000	100%
(b) Vehicles and equipment	1,040,000	100%
(c) Consultants' services	1,070,000	100%
(d) Training	290,000	100%
(2) LHLDC		
(a) Civil works	1,480,000	100%
(b) Vehicles and equipment	70,000	100%
(c) Consultants' services	120,000	100%
(d) Training	130,000	100%
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) LBFC		
(a) Vehicles and equipment	220,000	100%
(b) Consultants' services	180,000	100%
(c) Training	230,000	100%
(4) MICARD		
(a) Vehicles and equipment	150,000	100%
(b) Consultants' services	410,000	100%
(5) Refunding of Project Prepara- tion Advance	550,000	Amount due pur- suant to Section 2.02 (c) of this

Agreement

(6) Unallocated	2,980,000
	<hr/>
TOTAL	15,000,000

2. 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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) implement a program of policy reform to shift the urban sector towards greater financial self-sufficiency and accountability including improved cost recovery and increased availability of long-term finance; (ii) restructure and strengthen urban sector institutions including the Maseru Municipal Council, and the Lesotho Building Finance Corporation and establish the Lesotho Housing and Land Development Corporation; and (iii) support the improvement of the functioning of land markets in Lesotho.

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: Maseru Municipal Council

1. Establishment of MMC.
2. Implementation of MMC's five-year investment plan, including the upgrading of about 136 km of roads, upgrading of public amenities and provision of roads and street lighting.
3. MMC's five year operating and recurrent expenditures requirements.
4. Upgrading of Maseru South including the provision of:
 - (a) essential services, water supply, sanitation and community facilities; and
 - (b) roads, trains and street lighting.

Part B: Housing Development and Finance

1. LHLDC
 - (a) Establishment of LHLDC.
 - (b) Development by LHLDC of about 1,500 serviced residential plots in the Thetsane area of Maseru including on-site infrastructure.
 - (c) Provision of off-site infrastructure including community facilities, electricity and water.
2. LBFC
 - Provision by LBFC of about 1,500 mortgage loans at Thetsane and 1,900 mortgage loans at Maseru South.

Part C: Technical Assistance and Training

1. Strengthening of MMC during its initial years and of its land planning and management capacity.

2. Strengthening of LHLDC's management, development of appropriate policies and the introduction of an implementation program and management systems.
3. Strengthening of LBFC's capacity to more effectively undertake its expanded role in housing finance and improvement of its internal procedures and systems.
4. Strengthening of DOH's capacity to develop and monitor appropriate housing policies and programs.
5. Strengthening of LSPP to enable it to undertake the tasks necessary to assure proper land management.
6. Preparation of future urban investment requirements.

* * *

The Project is expected to be completed by June 30, 1994.

SCHEDULE 3

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part B hereof, goods and works 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 1985 (the Guidelines).
2. To the extent practicable, contracts for civil works and equipment and vehicles shall be grouped in bid packages each estimated to cost the equivalent of \$500,000 and \$50,000 or more respectively.

Part B: Other Procurement Procedures

1. Contracts, for civil works estimated to cost less than the equivalent of \$500,000 each and for equipment and vehicles estimated to cost less than the equivalent of \$50,000 each, may be awarded on the basis of competitive bidding advertised locally in accordance with procedures satisfactory to the Association.
2. Civil works may be carried out by force account by the Borrower's forces or by MMC.
3. Materials and equipment for house construction may be procured directly from local suppliers in accordance with procedures acceptable to the Association.

Part C: 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, estimated to cost the equivalent of \$250,000 or more, and for goods estimated to cost the equivalent of \$150,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of any of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of each contract required to be furnished to the Association pursuant to paragraph 2 (d) of Appendix 1 to the Guidelines shall be furnished to the Association prior to the making of the first payment out of the Special Account concerned 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 contracts are to be made out of any of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of each contract, together with the other information required to be furnished to the Association pursuant to paragraph 3 of Appendix 1 to the Guidelines shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedules 3, 4 and 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (a) (ii) of this Agreement.

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

Section II: Employment of Consultants

In order to assist the Borrower in carrying out Parts C.4 through 6 of 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.

SCHEDULE 4

MMC Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) (a), (b), (c) and (d) 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 Parts A and C.1 of 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 SDR 1,100,000 to be withdrawn from the Credit Account and deposited into the MMC Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the MMC 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 MMC Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the MMC Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the MMC Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the MMC Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the MMC Special Account such amounts as shall be required to replenish the MMC Special Account with amounts not exceeding the amount of payments made out of the MMC 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the MMC Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposits into the MMC Special Account shall be made by the Association when either of the following situations first arises:

- (i) 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; or
- (ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories for Parts A and C.1 of the Project, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts A and C.1 of the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for Parts A and C.1 of the Project 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 into the MMC 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 MMC Special Account: (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association, deposit into the MMC 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. No further deposit by the Association into the MMC Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in the MMC 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 for crediting to the Credit Account.

SCHEDULE 5

LHLDC Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (2) (a), (b), (c) and (d) 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 Parts B.1 and C.2 of 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 SDR 220,000 to be withdrawn from the Credit Account and deposited into the LHLDC Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the LHLDC 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 LHLDC Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the LHLDC Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the LHLDC Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the LHLDC Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the LHLDC Special Account such amounts as shall be required to replenish the LHLDC Special Account with amounts not exceeding the amount of payments made out of the LHLDC 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the LHLDC Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposits into the LHLDC Special Account shall be made by the Association when either of the following situations first arises:

(i) 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; or

- (ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories for Parts B.1 and C.2 of the Project, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts B.1 and C.2 of the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for Parts B.1 and C.2 of the Project 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 into the LHLDC 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 LHLDC Special Account: (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association, deposit into the LHLDC 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. No further deposit by the Association into the LHLDC Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in the LHLDC 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 for crediting to the Credit Account.

SCHEDULE 6

LBFC Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (3) (a), (b) and (c) 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 Parts B.2 and C.3 of 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 SDR 75,000 to be withdrawn from the Credit Account and deposited into the LBFC Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the LBFC 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 LBFC Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the LBFC Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the LBFC Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the LBFC Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the LBFC Special Account such amounts as shall be required to replenish the LBFC Special Account with amounts not exceeding the amount of payments made out of the LBFC 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the LBFC Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposits into the LBFC Special Account shall be made by the Association when either of the following situations first arises:

- (i) 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; or
- (ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories for Parts B.2 and C.3 of the Project, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts B.2 and C.3 of the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for Parts B.2 and C.3 of the Project 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 into the LBFC 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 LBFC Special Account: (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association, deposit into the LBFC 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. No further deposit by the Association into the LBFC Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in the LBFC 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 for crediting to the Credit Account.

