

CONFORMED COPY

CREDIT NUMBER 2596 KE

Development Credit Agreement

(Micro and Small Enterprise Training and Technology Project)

between

REPUBLIC OF KENYA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 25, 1994

CREDIT NUMBER 2596 KE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 25, 1994, between REPUBLIC OF KENYA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter, dated March 8, 1994, describing a program of actions, objectives and policies designed to achieve an adjustment of the Borrower's informal sector (hereinafter referred to as "the Program");

(B) the Borrower has declared its commitment to the execution of the Program and, 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;

(C) the Project has been designed for the benefit of the Jua Kali sector (as hereinafter defined), and will be carried out by the Borrower acting through its Ministry of Research, Technical Training and Technology (MRTT&T), and with the assistance of the Jua Kali Federation, a private organization registered under the laws of the Borrower (the Federation), and Jua Kali Associations (Jua Kali Associations), associations also registered under the laws of the

Borrower;

(D) the Borrower has submitted to the Association an Implementation Plan and Procedures Manual (the Manual), giving details of proposed organizational arrangements for the implementation of the Project, including the roles and functions of the various persons and entities involved in the implementation of the Project, their reporting obligations and other administrative procedures, and a proposed work plan and budget estimates for the forthcoming fiscal year;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "DAT" means the Directorate of Applied Technology of MRTT&T;

(b) "Industrial Training Levy Fund" means the Industrial Training Levy Fund established under the Borrower's Industrial Training Act;

(c) "Jua Kali", in relation to enterprises, means micro- and small-enterprises specializing in the manufacture of products and providing productive services;

(d) "Jua Kali Infrastructure Fund" means the Jua Kali Infrastructure Fund referred to in paragraph 5 (b) (ii) of Schedule 4 to this Agreement;

(e) "Jua Kali Operational Fund" means the Jua Kali Operational Fund referred to in paragraph 5 (b) (i) of Schedule 4 to this Agreement;

(f) "micro-enterprise" means an enterprise involving not more than nine employees;

(g) "participating agreement" means the agreement referred to in Section 3.03 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the participating agreement;

(h) "PDU" means the Planning and Development Unit of MRTT&T;

(i) "Project Implementation Framework Agreement" means the agreement to be entered into between the Borrower and the Federation pursuant to Section 3.03 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Implementation Framework Agreement;

(j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to two letters of agreement, dated July 29, 1992 and February 8, 1993, between the Borrower and the Association;

(k) "small-enterprise" means an enterprise involving not

less than ten and not more than forty-nine employees; and

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

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifteen million seven hundred thousand Special Drawing Rights (SDR 15,700,000).

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, 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 cancelled.

Section 2.03. The Closing Date shall be December 31, 2001 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be

payable semiannually on 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, 2004 and ending March 1, 2034. Each installment to and including the installment payable on March 1, 2014 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MRTT&T 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 required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Manual, and 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. (a) The Borrower shall conclude an agreement with the Federation (hereinafter referred to as the Project Implementation Framework Agreement), on such terms and conditions as shall be acceptable to the Association, giving details of:

- (i) the role and responsibilities of the Federation, and its reporting and other obligations, under the Project;

- (ii) the criteria, and other terms and conditions, for the selection of beneficiaries thereunder; and
- (iii) the nature and extent of the involvement of Jua Kali Associations in the implementation of the Project, including any provisions for cost recovery or other contributory arrangements.

(b) Prior to the commencement of any activity involving a Jua Kali Association under the Project, the Borrower shall require the Jua Kali Association to subscribe to an agreement (hereinafter referred to as a participating agreement), giving details of the nature and scope of such activity, and the role and responsibilities of the Jua Kali Association thereunder, and of any specific financial or other contribution required on the part of the Jua Kali Association.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account for each fiscal year, as well as the records and accounts relating to the Industrial Training Levy Fund, the Jua Kali Infrastructure Fund and the Jua Kali Operational Fund, 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 months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such

expenditures;

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

ARTICLE V

Remedies of the Association

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

(a) the Borrower has failed to carry out the Program, or a significant part thereof;

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

(c) the Federation shall have failed to perform any of its obligations under the Project Implementation Framework Agreement;

(d) 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 the Federation or any Jua Kali Association will be able to perform obligations arising under or out of the Project Implementation Framework Agreement;

(e) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Federation or any of the Jua Kali Associations involved in the implementation of an activity under the Project, or for the suspension of their operations.

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

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

(b) any event specified in paragraph (b), (d) or (e) 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 the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has obtained Cabinet approval for the establishment of the training fund under Part A of the Project;

(b) the Project Implementation Framework Agreement has been duly executed on behalf of the Borrower and the Federation;

(c) the Borrower has taken steps to provide all units of MRTT&T involved in the implementation of the Project with the staff resources that they need to discharge their obligations under this

Agreement; and

(d) the Borrower has recruited auditors to audit the records and accounts of the Industrial Training Levy Fund for fiscal year 1993, and a copy of the report of such audit (including recommended remedies) has been transmitted to the Association for review and comments.

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

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister 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 30007
Nairobi

Cable address:

FINANCE
Nairobi

Telex:

22921
MINFIN-KE

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

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

REPUBLIC OF KENYA

By /s/ Benjamin Kipkorir
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Francis X. Colaco
Acting Regional Vice President

SCHEDULE 1

(Section 2.02 (a))

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works and construction	1,800,000	100% of foreign expenditures and 80% of local expenditures
(2) Equipment and furniture	220,000	100%
(3) Vehicles	80,000	100% of foreign expenditures
(4) Consultants' services	2,600,000	100%
(5) Training and studies (other than consultants' services)	9,300,000	95% of local expenditures and 100% of foreign expenditures
(6) Operating costs	1,400,000	80%
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(7) Refunding of Project Preparation Advance	300,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
TOTAL	15,700,000 =====	

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 the incremental operating costs arising under the Project on account of: (i) local contractual staff salaries and allowances, (ii) maintenance of vehicles, fuel and equipment, and (iii) office rent, supplies and utilities.

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

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

(b) under Category (1) of the table in paragraph 1 of this Schedule, unless draft legislation has been submitted to Parliament to amend, update or supersede, as the case may be, the Registration of Business Names Act, the Trade Licensing Act, the Local Government Adoptive By-Laws (Building Order 1968), the Electric Power Act, as well as the Vagrancy, Nuisance and Chiefs' Authority Acts.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works and services not exceeding \$50,000 equivalent, and expenditures for local training programs and operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

(Preamble, para. (B))

Description of the Project

The objectives of the Project are to enhance entrepreneurial development in the private sector, and reduce constraints to employment promotion and income enhancement in the micro and small enterprise sector in the territory of the Borrower.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Training Fund

Establishment of a training fund to support:

(a) a demand-driven voucher program to be jointly implemented by MRTT&T, the Federation and Jua Kali Associations, to pay for short-term skill upgrading courses and enterprise-based training attachments for the benefit of entrepreneurs and artisans; and

(b) a supply-side training contract scheme involving public and private sector training providers, to be selected on a competitive basis, to provide a variety of training programs ranging from enterprise-based skill upgrading to advanced tailor-made courses.

Part B: Technology Development and Pilot Infrastructure

1. Establishment of a technology information, innovation and research program to stimulate information exchange and innovation in product development through assistance to a technology information clearing function, technology study tours, marketing exhibitions, and a small pilot program of adaptive technology research grants, awarded on a competitive basis, to promote indigenous capacity for research, design and commercialization of new products and production technologies for the informal sector.

2. Development of secure sites and services on a pilot basis in two cities (Mombasa and Kisumu) to provide Jua Kali Associations and their members with legal and secure tenure to work sites and facilitate their access to appropriate infrastructure, including water, sewerage, electricity, access roads, public toilets, refuse collection facilities and drainage.

Part C: Institutional Development

1. Development of an implementation strategy with substantial beneficiary participation, including: (a) an organizational review of MRTT&T and the Federation, and preparation of a staff redeployment and development plan required for Project implementation, and (b) training of MRTT&T staff and Jua Kali representatives in the

skills required for the effective management and supervision of the Project.

2. Development of a national training strategy, including:

(a) preparation of an action plan based on: (i) an assessment of the Industrial Training Levy Fund, including recommendations designed to make the levy scheme both financially sustainable and more responsive to the skill-upgrading needs of productive sectors, and (ii) an evaluation of the trade test and certification system designed to improve the standards and quality of skills training, and attendant certification and legitimization;

(b) completion of a policy review process for skills training; and

(c) on the basis of the action plan under subparagraph (a) of this paragraph, development of a national training strategy, embodying principles of relevance, quality and efficiency, and financial sustainability, and giving details of future objectives, organization and management, as well as financing and content of future training schemes.

3. Establishment of a monitoring and evaluation system to make the training system more quality conscious, responsive to the needs of the economy, demand-driven and financially sustainable.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

(Section 3.02)

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

(b) For fixed price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when the contract is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

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

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$50,000 or more.

3. Goods procured in accordance with the procedures described in paragraph 1 (a) above shall be exempted from preshipment price

inspection by third parties.

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Contracts for civil works, up to an aggregate amount equivalent to \$2,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Miscellaneous supplies estimated to cost the equivalent of \$50,000 or less per contract, and equipment which need to be compatible with existing units, up to an aggregate amount equivalent to \$300,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Small quantities of low-value equipment may be procured through the Inter-Agency Procurement Services Office, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each service contract, each contract for civil works estimated to cost the equivalent of \$250,000 or more, and each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

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

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

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Association review or approval requirements shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single-source hiring of firms, to assignments of a critical nature as reasonably determined by the Association, and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 4

(Section 3.01 (b))

Implementation Program

1. (a) Not later than May 31, 1995 and, thereafter, not later than May 31 of each subsequent year during the implementation period of the Project, the Borrower and the Association shall undertake, in conjunction with representatives of the Federation and Jua Kali Associations, a joint annual review of the Project or, in the case of the review to be undertaken not later than May 31, 1998, a midterm review, during which they shall exchange views generally on all matters relating to the progress of the Project, and the performance by the Borrower, the Federation and Jua Kali Associations of their respective obligations arising under this Agreement, the Project Implementation Framework Agreement or a participating agreement, as the case may be; including, but not limited to:

- (i) major policies in the sector and recurrent financing levels;
- (ii) an assessment of the progress achieved under each component of the Project;
- (iii) required modifications to targets and strategies;
- (iv) preparation of future work plans and budgets;
- (v) progress reports submitted by MRTT&T and other agencies responsible for the implementation of the Project; and
- (vi) in the case of the midterm review,
 - (A) an evaluation of overall progress and implementation, having regard to the overall objectives of the Project and the Program;
 - (B) an analysis of constraints and bottlenecks arising out of sector policies and regulatory framework;
 - (C) an assessment of progress achieved, and changes needed, in the implementation of training programs;
 - (D) an assessment of progress achieved in the development and utilization of work sites;
 - (E) an assessment of progress achieved in the provision of work site security to Jua Kali operators; and
 - (F) a review of the institutional constraints and recommendations.

(b) Not later than one month prior to each such review, the Borrower shall furnish to the Association, for its comments, a report, in such detail as the Association shall reasonably request, on the progress and status of the Project; including: (i) a statement of the achievements of the Project and actual expenditures for the current fiscal year, and (ii) details of the proposed work plan and budget for the forthcoming fiscal year, and of other issues to be addressed during such review.

(c) Following each such review, the Borrower shall act promptly and diligently, in order to take, or assist the Federation or the Jua Kali Associations in taking, any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement, or assist the Federation or the Jua Kali Associations in implementing, such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

2. The Borrower shall cause PDU to liaise with other agencies involved in the implementation of the Project to have semiannual progress reports prepared and submitted, not later than April 30 and October 31 of each year, to the Association for review and comments.

3. The Borrower shall assign responsibility for day-to-day coordination of the Project to DAT, and for overall coordination thereof to a Project Steering Committee, involving representatives of MRTT&T, the Federation and the Jua Kali Associations.

4. For the purposes of Parts A and B of the Project, the beneficiaries thereunder shall be selected on the basis of predetermined selection criteria, and in accordance with terms and conditions (including provisions for cost recovery) which shall be acceptable to the Association.

5. The Borrower shall take appropriate measures to ensure that:

(a) occupants of work sites developed under Part B.2 of the Project shall be required to pay an amount of rents and charges adequate to reflect the actual costs of the sites and services provided thereunder; and

(b) for purposes of channelling the proceeds of the rents and charges referred to in subparagraph (a) of this paragraph (hereinafter referred to as the proceeds), two separate accounts shall be opened and maintained as follows:

(i) an operational account (hereinafter referred to as Jua Kali Operational Fund), into which 15% of the proceeds, or such other percentage thereof as may be deemed appropriate, having regard to the age of the work sites and other local conditions, shall be deposited to be applied for purposes of meeting management costs, and the costs of maintenance and repairs; and

(ii) a development account (hereinafter referred to as Jua Kali Infrastructure Fund), into which the balance of the proceeds shall be deposited to be invested in short-term and medium-term securities, and applied, as needed, for purposes of further development of Jua Kali sites, or for the provision of credit facilities for the purchase of tools and equipment by Jua Kali operators.

6. For the purposes of Part C.1 (a) of the Project, the Borrower shall have the organizational review referred to therein completed not later than December 31, 1994, and the proposed staff redeployment and development plan submitted to the Association for approval, not later than June 30, 1995.

7. For the purposes of Part C.2 of the Project, the Borrower shall have:

(a) the detailed action plan, the assessment of the Industrial Training Levy Fund, and the evaluation of the trade test and certification system, completed not later than August 31, 1995; and

(b) the policy review process for skills training, and the draft national training strategy, completed not later than December 31, 1995.

SCHEDULE 5

(Section 2.02 (b))

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

(ii) Prior to, or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the

respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

