

CONFORMED COPY

CREDIT NUMBER 2612 LSO

Development Credit Agreement

(Privatization and Private Sector Development
Assistance Project)

between

THE KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 1, 1995

CREDIT NUMBER 2612 LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 1, 1995, between THE KINGDOM OF
LESOTHO (the Borrower) and INTERNATIONAL DEVELOPMENT
ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the
Borrower regarding the Borrower's privatization policy dated
April 15, 1994 (hereinafter referred to as the Program),
declaring the Borrower's commitment to the execution of the
Program;

(B) 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;

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) "Implementation Fund" means the part of the Credit from which the implementation of certain actions, proposed as a result of the studies to be carried out under Part B.1 of the Project, may be financed, in accordance with Schedule 4 to this Agreement;

(b) "Implementation Fund Committee" means the committee referred to in paragraph 10 of Schedule 4 to this Agreement, that shall decide on the allocation of funds from the Implementation Fund in accordance with said Schedule;

(c) "Law Reform Commission" means the commission established by the Law Reform Commission Act No.5 of 1993, that is to review the laws of Lesotho with a view to systematic development and reform of the law;

(d) "LNDC" means the Lesotho National Development Corporation, established by Order No.13 of 1990;

(e) "MOF" means the Borrower's Ministry of Finance;

(f) "MOHA" means the Borrower's Ministry of Home Affairs;

(g) "MTI" means the Borrower's Ministry of Trade and Industry;

(h) "Parastatal Organization" means any body corporate the equity capital of which is at least fifty percent directly or indirectly owned by the Borrower and units of the Borrower's ministries which operate revenue generating and self-accounting business activities;

(i) "Privatization" means the sale of assets of, equity capital in, or the transfer of management control over a Parastatal Organization to the private sector including the sale of a business as a going concern, the leasing of a business or specific assets with or without an option to purchase, the transformation of a Parastatal Organisation into a limited company or a combination of two or more of these methods;

(j) "Privatization Law" means the law referred to in Section 6.01 (a) of this Agreement;

(k) "Privatization Unit" means the unit referred to in paragraph 4 of Schedule 4 to this Agreement;

(l) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated February 4, 1994 and March 30, 1994 between the Borrower and the Association; and

(m) "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 seven million nine hundred thousand Special Drawing Rights (SDR 7,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in the Borrower's Central 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, 2000 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 1 and July 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 semi-annual installments payable on each January 1 and July 1 commencing July 1, 2004 and ending January 1, 2034. Each installment to and including the installment payable on January 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 with due diligence and efficiency and in conformity with appropriate privatization, financial and administrative 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 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. Except as the Association shall otherwise agree, the Borrower shall, not later than 12 months after the Effective Date, submit to the Association an analysis of the restrictions imposed by law on the conduct of business activities by women in Lesotho and adopt a time-bound action plan, acceptable to the Association, to alleviate those restrictions. Upon adoption of said action plan, the Borrower shall take all necessary action required for the implementation of said action plan in accordance with its terms.

Section 3.04. Except as the Association shall otherwise agree, the Borrower shall establish and maintain, at least

until the completion of the Project, a private sector advisory group composed of senior-level government officials, the head of the Privatization Unit and key members of the private sector. The Borrower shall consult with the private sector advisory group at least twice yearly on the implementation of the Program and related private sector development issues.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than 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 Privatization Law or any part thereof, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the implementation of the Project;

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Privatization Unit or for the suspension of its operations; and

(c) an extraordinary situation shall have arisen which makes it improbable that the Program, or a significant part thereof, will be carried out.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, any event specified in paragraph (a) through (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of 30 days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower shall have enacted a law establishing a legal and institutional framework for Privatization (the Privatization Law) satisfactory to the Association;

(b) the Borrower has appointed the head and the staff of the Privatization Unit, whose qualifications are satisfactory to the Association; and

(c) the Borrower shall have appointed a Project accountant, whose qualifications and experience shall be acceptable to the Association, and who shall be charged with maintaining the Project's records and accounts.

Section 6.02. The date one hundred twenty (120) 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 responsible for finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Principal Secretary
Ministry of Finance
P.O. Box 395
Maseru 100
Lesotho

Telex:

4367 LO

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.

THE KINGDOM OF LESOTHO

By /s/ Eunice Bulane

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Stephen M. Denning

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) Consultants' services, studies and training	4,810,000	100%
(2) Equipment and vehicles	220,000	100%
(3) Implementation Fund:		85%
(a) civil works	1,800,000	
(b) consultants' services	70,000	

(c) equipment and vehicles	70,000	
(d) operating costs	70,000	
(4) Strengthening of the Ministry of Home Affairs:		85%
(a) consultants' services	70,000	
(b) equipment and vehicles	35,000	
(c) operating costs	35,000	
(5) Refunding of Project Preparation Advance	290,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	430,000	
TOTAL	7,900,000	=====

2. For the purposes of this Schedule, the term "Operating costs" means incremental recurrent costs incurred for Project implementation, such as vehicle operation and maintenance, equipment maintenance and repairs, and administrative expenditure but excluding salaries.

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

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

(b) category three (3), unless the withdrawal is made to finance an activity proposed to be financed out of the Implementation Fund by the Implementation Fund Committee and agreed to by the Association in accordance with Schedule 4 to this Agreement; and

(c) category four (4), prior to the submission by the Borrower to the Association of (i) an expenditure plan for the strengthening of the MOHA acceptable to the Association; and (ii) evidence, acceptable to the Association, that a lease for a tract of land, zoned for private sector development, has been issued in accordance with the Borrower's Land Act 1979 (as amended), in the name of MTI for the purpose of issuing sub-leases to private entrepreneurs.

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 \$35,000 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 ensure sustained economic growth in which the private sector takes the lead and the government focuses on the provision of an enabling environment.

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: Privatization

Support to the preparation and implementation of the Borrower's Privatization program, including the development of a legal and institutional framework for privatization and advice, inter alia, on valuation, marketing, selection of privatization methods, transactions and public awareness.

Part B: Private Sector Development

1. The carrying out of studies, the development of action plans and the implementation of selected actions, in areas that must be reformed to support private sector development, including:

- (a) the legal framework for the private sector;
- (b) the role for LNDC as a catalyst for private investment;
- (c) the labor market; and
- (d) the utility rate structures.

2. Strengthening of key institutions that support the private sector, including MOH, the Investment Promotion Center in LNDC, the Business Advisory and Promotion Service in MTI, the Lesotho Chamber of Commerce & Industry, and the Law Reform Commission.

Part C: Capital Market Development

Support to the development of capital market instruments like indigenous savings groups and unit trusts, including the development of a legal and administrative framework to support these instruments.

* * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, 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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award 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.

(b) In the procurement of works 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.

Part B: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Works estimated to cost the equivalent of \$500,000 or less per contract, up to an aggregate amount equivalent to \$2,500,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Equipment and vehicles may be procured up to an aggregate amount equivalent to \$300,000 through: (a) the Inter-Agency Procurement Service Office of the United Nations Development Programme in accordance with the said Office's own procedures, or (b) 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.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of more than \$35,000, 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.

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

Section II. Employment of Consultants

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

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a)

contracts for the employment of consulting firms estimated to cost less than \$35,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$35,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$35,000 equivalent or above, of (e) amendments to contracts for the employment of individual consultants raising the contract value to \$35,000 equivalent or above.

SCHEDULE 4

Implementation Program

I. Project Implementation, Monitoring and Review

1. MOF shall carry overall responsibility for the implementation of the Project and shall appoint, and maintain throughout the implementation of the Project, a full-time project Coordinator (the Project Coordinator). Day-to-day implementation of Parts A (Privatization) and B.1 (Studies) of the Project shall be entrusted to the Privatization Unit and designated representatives (at the principal secretary level) of the relevant line ministries respectively. The Project Coordinator shall, inter alia, be responsible for disbursement and procurement matters and consultant related activities and shall liaise on these subjects with the Privatization Unit and the aforementioned designated representatives.

2. MOF shall be responsible for monitoring the implementation of the Project. At the end of each quarter of the calendar year, MOF shall submit to the Association a progress report on the implementation of the Project in a format approved by the Association.

3. (a) The Borrower and the Association shall carry out a mid-term review of the Project towards the end of the second year following the Effective Date, or at any other time as agreed between the Borrower and the Association. At least sixty days prior to such review the Borrower shall prepare and submit to the Association all necessary documentation for the evaluation of the Project. The terms of reference of this review shall be acceptable to the Association and shall include an assessment of inter alia: (i) progress made in achieving key Project objectives; (ii) the need to adjust Project design in the light of the implementation experience; (iii) the performance of the Privatization Unit; (iv) the performance of the technical assistance; (v) the Implementation Fund arrangements; and (vi) the functioning of the Law Reform Commission.

In addition, as part of the review, the Borrower shall prepare a program of action, satisfactory to the Association, to deal with deficiencies in Project implementation identified during the review.

(b) Promptly after the review mentioned in paragraph (a) above, the Borrower shall take, or shall cause to be taken, all necessary action required for the implementation of the program of action referred to in paragraph (a) above.

II. Part A of the Project: Privatization

4. For the purpose of Part A of the Project, the Borrower shall establish, and maintain during the implementation of the Project, a Privatization Unit with membership (including a head), staff, terms of reference and decision making authority acceptable to the Association.

5. For the purpose of Part A of the Project, the Borrower shall

(i) submit to the Association, each year not later than February 1st, an annual privatization plan for the subsequent period of 12 months commencing April 1st, and acceptable to the Association. Each plan shall target at least four Parastatal Organizations and shall include a detailed, tentative timetable with monitorable actions for their privatization or restructuring (including commercialization) during the period covered by such plan; and (ii) complete all steps within its control to implement the said privatization or restructuring (including commercialization) plan in accordance with its terms.

6. For the purpose of Part A of the Project, the Borrower agrees to:

(a) consult with the Association prior to creating any new Parastatal Organization;

(b) as of April 1, 1997, cease all operating subsidies or other financial support to cover operating expenses of Parastatal Organizations; and

(c) allocate or cause to be allocated, all proceeds resulting from the implementation of the Privatization program to investments supportive of the Privatization process and private sector development in general.

III. Part B.1 of the Project: Private Sector Development Studies

7. The Borrower shall undertake the studies in accordance with an implementation timetable acceptable to the Association. The focus of each of the studies shall be the following:

(a) Legal framework study: A review of the institutions and activities of the legal sector in Lesotho with a view to developing a legal framework that meets the needs of the private sector. The study shall review in particular, legal education, dispute settlement mechanisms, the private legal profession, the Attorney-General's office and access to legal information. The study shall be carried out under the tutelage of the Law Reform Commission.

(b) Labor market study: (i) a review of labor issues affecting productivity; (ii) a review of the need to improve the acquisition of skills; and (iii) a review of labor relations issues, especially between local labor and foreign investors.

(c) Utility rates study: a review of the issues causing tariff structures for industry to be less than optimal in light of the Borrower's efforts to promote investment.

8. The Borrower shall submit detailed reports of each study to be carried out under Part B.1 of the Project to the Association at the latest as part of the documentation to be submitted to the Association in the context of the mid-term review in accordance with paragraph 3 of Part I of this Schedule 4.

9. Each report referred to in the preceding paragraph shall include a detailed action plan containing activities to be taken in support of private sector development and to be financed out of the Implementation Fund. Only those activities that are likely to have positive impact on private sector development in the area concerned shall be included in the action plans.

10. An Implementation Fund Committee composed of the Principal Secretary of Finance (chair), the Principal Secretary of Planning, the Borrower's Attorney-General, the head of the Privatization Unit and two representatives of the private sector designated by MOF and acceptable to the Association,

shall in agreement with the Association, decide which of the activities proposed for the various areas of reform shall be financed from the Implementation Fund. Those activities shall be specified in an Implementation Fund activities plan that shall be reviewed and updated as required by the Implementation Fund Committee. Any changes to the Implementation Fund activities plan are subject to the Association's approval.

IV. Part B.2 of the Project: Institutional Strengthening

11. The Borrower shall maintain the Law Reform Commission at least until the completion of the Project and shall, not later than February 1st of each year, submit to the Association for its review and comments: (i) an annual work-program for the Law Reform Commission for the subsequent period of 12 months commencing April 1st, the main focus of which shall be on the strengthening of the laws applicable to private business activity; and (ii) a report on the activities of the Law Reform Commission during the previous year.

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 \$350,000 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 paragraph 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.

