

CONFORMED COPY

CREDIT NUMBER 3308-LSO

Development Credit Agreement

(Community Development Support Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 19, 2000

CREDIT NUMBER 3308-LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 19, 2000, 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; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), (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) "Beneficiary Community" means a community duly represented by a Community Subproject Committee (as hereinafter defined), which is a recipient, or proposed to be a Recipient, of a Grant (as hereinafter defined);

(b) "BOS" means the Bureau of Statistics within MODP (as hereinafter defined);

(c) "Community Subproject Committee" means the committee to be established by each Beneficiary Community in accordance with the Operational Manual (as hereinafter defined) for the purpose of identifying, preparing and carrying out Subprojects (as hereinafter defined);

(d) "Financing Agreement" means an agreement to be entered into between LFCD and a Community Subproject Committee for the financing of a Subproject (as hereinafter defined) through the provision of a Grant (as hereinafter defined);

(e) "Grant" means a grant made, or proposed to be made, by LFCD to finance a Subproject (as hereinafter defined) under Part A of the Project;

(f) "LFCD" means the Lesotho Fund for Community Development, established by Legal Notice No 16, dated March 10, 1999 for the purposes of promoting and financing small scale development initiatives undertaken by communities at the local level;

(g) "MODP" means the Borrower's Ministry of Development Planning;

(h) "NGO" means a non-governmental organization operating in the territory of the Borrower;

(i) "Operational Manual" means the manual adopted by the Borrower on May 19, 1999 regulating the functioning of LFCD, and the implementation of Subprojects (as hereinafter defined), as the same may be amended from time to time;

(j) "PMR" means the Project Management Reports referred to in Section 4.02 of this Agreement;

(k) "PMT" means the Poverty Monitoring Team referred to in paragraph 2 of Schedule 4 to this Agreement;

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

(m) "Subproject" means a specific development project which meets the criteria set forth in Paragraph 5 of Schedule 4 to this Agreement and further detailed in the Operational Manual, and which is to be financed in whole or in part out of the proceeds of the Credit;

(n) "Revenue Receiving Account" or "RRA" means the account referred to in Section 3.04 of this Agreement; and

(o) "Maloti" means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to three million six hundred thousand Special Drawing Rights (SDR 3,600,000).

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: (i) 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; and (ii) amounts paid (or if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made for the benefit of a Beneficiary Community under a Subproject to meet the reasonable costs of goods, works or services required for such Subproject and in respect of which withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in its central bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2003, 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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 1 and December 1 commencing June 1, 2010 and ending December 1, 2039. Each installment to and including the installment payable on December 1, 2019 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this

paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end shall carry out the Project 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 Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall: (a) maintain LFCD with functions and responsibilities and staff in adequate numbers, all satisfactory to the Association; and (b) ensure that all LFCD's operations are carried out in accordance with operational guidelines and procedures set forth in the Operational Manual.

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

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

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.04. The Borrower shall:

(a) open and maintain the RRA in its central bank under the name of the LFCD under terms and conditions satisfactory to the Association;

(b) deposit into the RRA an aggregate amount of not less than 225 million Maloti which shall be disbursed in three annual installments to be determined as follows: (i) an initial amount of not less than 40 million Maloti shall be deposited into the RRA by April 15, 2000; (ii) unless it shall have been agreed upon otherwise with the Association, the amount of the second and third installment shall be equal to 85 million Maloti and 100 million Maloti respectively; and (iii) the amount of the

said second and third installments shall be deposited into the RRA by April 15, 2001 and April 15, 2002 respectively; and

(c) ensure that the proceeds of the RRA are used by LFCD only for the purposes of funding community driven Subprojects and other activities entrusted to LFCD with a view to fostering and monitoring the reduction of poverty in the Borrower's territory, all in accordance with the operational procedures and guidelines set forth in the Operational Manual.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

(ii) furnish to the Association, as soon as available, but in any case not later than six (6) 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; 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.

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

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

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

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

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

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than September 30, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports,

acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter, a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 submitted to the Association, an Operational Manual in form and substance satisfactory to the Association;

(b) the Borrower has appointed as: (i) Executive Director of the LFCD; and (ii) as LFCD's Director for Finance and Administration, professionals with qualifications and experience satisfactory to the Association;

(c) the Borrower has recruited the auditors referred to in Section 4.01 (b) of this Agreement, under terms and conditions acceptable to the Association and in accordance with the provisions of Section II of Schedule 3 to this Agreement; and

(d) the Borrower has adopted financial management and accounting systems acceptable to the Association for LFCD.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P.O. Box 395
Maseru 100

Lesotho

Cable address:

Telex:

FINMIN

4330 LO

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

KINGDOM OF LESOTHO

By /s/ Lebohang Kenneth Moleko

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Pamela Cox

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) Subprojects under Part A of the Project	900,000	100% of amounts disbursed by LFCD
(2) Equipment, furniture, supplies and vehicles		100% of foreign expenditures and 90% of local expenditures

(a)	for Part A of the Project	220,000	
(b)	for Part B of the Project	45,000	
(3)	Consultants' services and training		100%
(a)	for Part A of the Project	1,300,000	
(b)	for Part B of the Project	660,000	
(4)	Unallocated	475,000	
	TOTAL	3,600,000	

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; and

(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.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 500,000, may be made on account of payments made for expenditures before that date but after February 22, 1999; and

(b) expenditures under Category (1): (i) until the LFCD has adopted a financial management and accounting system acceptable to the Association; and (ii) unless the Subproject has been made in accordance with the criteria, procedures and terms and conditions set forth or referred to in Paragraphs 5 and 6 of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) Subprojects under contracts costing less than \$75,000 equivalent each; (c) services: (i) for firms under contracts costing less than \$100,000 equivalent each; and (ii) for individuals under contracts costing less than \$50,000 equivalent each; and (d) training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) test a demand-driven and participatory approach through a multi-sectoral special fund and draw lessons as to whether it is an appropriate mechanism to support community development in the Borrower's territory; and (b) test various mechanisms and tools to monitor poverty trends in the Borrower's territory and to coordinate national poverty monitoring and analysis activities.

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: Lesotho Fund for Community Development

1. Carrying out of Subprojects related to health, education and vocational

training, water supply and sanitation, watershed management and irrigation, environmental management and land reclamation, rural and urban markets, road infrastructure and revenue-generating traditional and non-traditional activities for the benefit of a Beneficiary Community.

2. (a) Establishment of computerized management information systems including, inter alia, an accounting and financial management system and an operations monitoring and evaluation system as required to monitor and improve the efficiency of LFCD's operations.

(b) Training of LFCD's relevant staff in maintaining the management information systems referred to in paragraph (a) above and to keep them up to date at all times.

3. Strengthening the capacity of LFCD to adequately select, monitor and supervise Subprojects through the provision of technical advisory services.

4. Production and dissemination of information, education and communication materials and provision of appropriate training to all relevant groups, including community organizations, NGOs, public officials and elected leaders on LFCD's objectives and operating procedures, so as to enable them to assist the communities in identifying, preparing and carrying out Subprojects.

5. Formulation and implementation of a training program aimed at building up the capacity of local communities to implement, manage and maintain facilities and physical infrastructures developed as a result of any Subproject.

Part B: Poverty Monitoring

1. Carrying out of studies and research on poverty and social issues, and systematic poverty monitoring, through the conduct of household and community surveys, specific beneficiary and participatory assessments, and collection of statistics and information.

2. Strengthening the capacity of the relevant MODP staff to conduct poverty analyses and formulate appropriate policies required to combat poverty within the Borrower's territory through the provision of training.

3. Establishment and maintenance of a national data base on poverty and related social issues and dissemination of poverty data among government agencies and the public at large.

* * *

The Project is expected to be completed by March 31, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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

Part B: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost more than \$75,000 equivalent and goods estimated to cost more than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$200,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

4. Procurement from UN Agencies

Office equipment, computers and vehicles may be procured from the United Nations Inter-Agency Procurement Office in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Community Participation

Goods and works required for Part A.1 of the Project and estimated to cost less than \$75,000 per contract shall be procured in accordance with procedures acceptable to the Association and specified in the Operational Manual.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, and for works estimated to cost the equivalent of \$75,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract estimated to cost the equivalent of \$30,000 or less, the following procedures shall apply:

(i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

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

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$75,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Commercial Practices

Services to assist Beneficiary Communities in carrying out Subprojects under Part A.1 of the Project may be procured in accordance with commercial practices acceptable to the Association.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

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

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by November 15 of each year, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the recommendations of the said report and the Association's views on the matter.

2. For the purposes of carrying out Part B of the Project, the Borrower shall:

(a) by not later than April 1, 2000, establish and thereafter maintain, throughout the duration of the Project, a Poverty Monitoring Team within MODP to be staffed at all times with not less than three (3) national experts with qualifications and experience satisfactory to the Association;

(b) prepare a draft annual work program and training program to be carried out by the PMT and submit the said programs to the Association not later than September 30 of each year for its review and comments; and

(c) finalize the said work and training programs by taking duly into account the comments made by the Association; and thereafter promptly implement them as agreed upon with the Association.

3. The Borrower shall:

(a) periodically review and assess with the Association, the adequacy of the guidelines and procedures set forth in the Operational Manual with a view to gauging the effectiveness and impact of the said guidelines and procedures on the selection and implementation of Subprojects; and

(b) revise the Operational Manual as required to adapt LFCD's operating guidelines and procedures to the realities faced on the ground; and

(c) by September 30, of each year, submit to the Association for its review and comments the draft revised Operational Manual referred to in paragraph (b) above.

4. (a) Not later than September 30, 2001, or such other date as the Borrower and

the Association shall agree upon, the Borrower and the Association shall carry out a mid-term review (hereinafter referred to as the Midterm Review). Such Midterm Review shall cover the progress achieved in the implementation of the Project.

(b) Not later than one month prior to the Midterm Review, the Borrower shall furnish to the Association, for its review and comments, a report including inter alia the results of the beneficiary assessments referred to under Part B.1 of the Project, in such detail as the Association shall reasonably request, on the implementation of the Project.

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

5. Eligibility Criteria for Subprojects

Without limitation on the provisions of this Agreement, no Subproject shall be eligible for financing out of the proceeds of the Credit unless LFCD shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Operational Manual, that the Subproject satisfies the eligibility criteria specified in more detail in the Operational Manual, which shall include the following:

(a) the Subproject shall be for health, education and vocational training, water supply and sanitation; agricultural production (markets, storage facilities, and conservation plants); natural resource management, infrastructure and revenue-generating traditional and non traditional activities;

(b) the Subproject shall be initiated by a Beneficiary Community duly represented by a Community Subproject Committee;

(c) the Subproject shall be environmentally, economically, financially and technically viable in accordance with the standards specified in the Operational Manual;

(d) except as the Association shall otherwise agree, the Beneficiary shall provide not less than 10 % of the estimated costs of the Subproject in the form of cash, materials, labor or other; and

(e) the Subproject shall be in compliance with the standards set forth in the applicable laws of the Borrower relating to health, safety and environmental protection.

6. Terms and Conditions of Grants

In financing Subprojects, LFCD shall enter into a Financing Agreement with the Beneficiary, under terms and conditions which shall include the following:

(a) financing to be on a grant basis and, unless otherwise agreed with the Association, not to exceed the equivalent of \$75,000 per Grant;

(b) the obligation to carry out the Subproject in accordance with the Operational Manual, with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Subproject;

(c) the requirement that: (i) the goods, works and services to be financed from the proceeds of the Credit shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Subproject;

(d) the right of LFCD to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the Subproject, the operations thereof and any relevant records and

documents;

(e) the right of LFCD to obtain all information as LFCD or the Association shall reasonably request regarding the administration, operation and financial conditions of the Subproject; and

(f) the right of LFCD to suspend or terminate the right of the Beneficiary to use the proceeds of the Credit for the Subproject upon the failure by the Beneficiary to perform any of its obligations under the Financing Agreement.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) 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 \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,500,000.

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

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

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

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

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

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the

Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

SCHEDULE 6

Performance Indicators

1. A practical and appropriate methodology adopted for community needs assessments and participatory planning process, and for appraisal, implementation and maintenance for community demand-driven projects, with a view to achieving LFCD's goal of poverty reduction (indicated through a revised OM, beneficiary assessments and evaluation reports).

2. Expected benefits to be generated by sub-project, have been assessed by gauging inter alia, the level of satisfaction from the users of facilities developed under the sub-project, the efficiency of operations and maintenance of said facilities, and poverty targeting (e.g. resources allocated to poor communities, types of investment with higher impact on the poor), and relevance of investment to community needs (indicated through post-completion evaluations of sub-projects, beneficiary assessments, household surveys, and evaluation reports).

3. Semi-annual reports on LFCD's activities and operations submitted to the Association, no later than 45 days after the end of every six months.

4. A strategy, reflecting the lessons learnt, acceptable to the Association, adopted by June 30, 2002, to support community development, including an action plan for future of the LFCD.

5. The Core Welfare Indicators Questionnaires (CWIQ) piloted and its effectiveness and adequacy as a tool for poverty monitoring evaluated.

6. A strategy or an action plan, reflecting the lessons learnt, acceptable to the Association, adopted by September 30, 2002, to monitor poverty data and trends at the national level.

