

CONFORMED COPY

CREDIT NUMBER 2857 LSO

DEVELOPMENT CREDIT AGREEMENT

(ROAD REHABILITATION AND MAINTENANCE PROJECT)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 16, 1996

CREDIT NUMBER 2857 LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 16, 1996, between the KINGDOM OF LESOTHO (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Association has received a letter, dated December 12, 1995, from the Borrower describing a program of actions, objectives and policies designed to restructure the Borrower's roads sector and to increase its efficiency (hereinafter referred to as the Program), and declaring the Borrower's commitment to the execution of such Program;

(C) the Borrower intends to contract from the Republic of Ireland (RI) and the European Union (EU) grants in a total amount equivalent to about \$19,000,000 to assist in financing the Project on the terms and conditions set forth in each of the respective grant agreements (the Financing Agreements) to be entered into between the Borrower and RI and EU, respectively; 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, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

(a) "MOW" means the Borrower's Ministry of Works;

(b) "MHA" means the Borrower's Ministry of Home Affairs;

(c) "CWS" means the Civil Works Section of the MHA responsible for carrying out maintenance operations for rural roads;

(d) "FCMU" means the Financial and Contracts Management Unit referred to in paragraph 2 of Schedule 4 to this Agreement;

(e) "Road Fund" means the Road Fund referred to in Section 3.04 of this Agreement, established by Legal Notice No. 179, dated December 7, 1995 and regulated by legal notice 16, dated February 15, 1996 of the Borrower;

(f) "Maloti" means the currency of the Borrower;

(g) "NRB" means the National Road Board established by Legal Notice No. 16 dated February 15, 1996 of the Borrower;

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

(i) "PVPS" means the Plant and Vehicle Pool Services, a unit within MOW responsible for maintaining and repairing the Borrower's vehicles and road maintenance equipment;

(j) "PCC" means the Project Coordination Committee established by the Principal Secretary, Central Planning and Development Office, through a letter No. CPO/4/014, dated April 29, 1996, of the Borrower;

(k) "Project Implementation Manual" and "PIM" means the manual describing the Project reporting and monitoring procedures, plans and other implementation arrangements and specifying the performance indicators to be followed in assessing the progress achieved in the execution of the Project;

(l) "Training Program" means the program referred to in Section 6.01 (d) iii of this Agreement and designed to train MOW staff members and subsequently reassign them in appropriate positions within MOW;

(m) "Gazetted Road" means any road duly comprised within the roads classification established under the Roads Act No. 24, dated April 24, 1969, of the Borrower; and

(n) "Fiscal Year" means the Borrower's fiscal year.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty-six million eight hundred thousand Special Drawing Rights (SDR 26,800,000).

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 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 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 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 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 15 and July 15 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 15 and July 15 commencing July 15, 2006, and ending January 15, 2036. Each installment to and including the installment payable on January 15, 2016, 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 MOW, with due diligence and efficiency and in conformity with appropriate financial, administrative, environmental and highway engineering 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, including the Project Implementation 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. Without limitation upon the provisions of Section 3.01 (a) of this Agreement, the Borrower shall: (a) maintain the Road Fund under terms and conditions which shall be at all times satisfactory to the Association; (b) take all measures required on its part to ensure that the level of the various road users fees to be channeled into the Road Fund are promptly adjusted from time to time in accordance with financial parameters and forecasts included in PIM and agreed upon with the Association to secure the availability of all funds required for the diligent carrying out of roads maintenance and rehabilitation operations; and (c) ensure that the proceeds of the Road Fund shall be used solely for the purposes of defraying the cost

of expenditures incurred for road maintenance and rehabilitation operations in the territory of the Borrower.

Section 3.05. The Borrower shall, by March 31, 1997: (a) prepare and submit to the Association, for its review and comments, a draft manpower development action plan and a draft reorganization plan to restructure MOW; (b) carry out the studies referred to under Parts B.1; B.2 and C.3 of the Project and submit the results and recommendations of the said studies, as soon as they become available, to the Association for its review and comments; (c) take into account the comments and recommendations made by the Association; (d) promptly restructure MOW in a manner satisfactory to the Association; and (e) implement the recommendations of the studies referred to in paragraph (b) above in accordance with a timetable and in a manner satisfactory to the Association.

Section 3.06. Before undertaking any new investment for road construction estimated to cost more than \$5 million equivalent, the Borrower shall: (a) carry out: (i) a detailed design study, under terms of reference agreed upon with the Association, aimed, inter alia, at demonstrating that the proposed investment has an economic rate of return of at least 12 percent; and (ii) an environmental impact assessment; (b) promptly review the results of the said design study with the Association; and (c) unless otherwise agreed upon with the Association, shall not undertake any proposed road investment which shows an economic rate of return of less than 12 percent.

Section 3.07. The Borrower shall not carry any activity relating to the execution of Part A.3 (b) and A.4 before April 1, 1998 unless funds deposited in the Road Fund have reached a total aggregate amount of 44,000,000 Maloti.

#### 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 six 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 Asso-

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

(b) Legal Notice No. 179, dated December 7, 1995, establishing the Road Fund or legal Notice No. 16 dated February 15, 1996, regulating the operations of the Road Fund of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement;

- (c)
  - (i) subject to subparagraph (ii) of this paragraph: The right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.
  - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (b) 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) all conditions precedent to the effectiveness of the Financing Agreements have been fulfilled, other than those related to the effectiveness of this Agreement;

(b) the Borrower has adopted a Project Implementation Manual acceptable to the Association;

(c) the Borrower has allocated in its budget for fiscal year 1996/1997 adequate funds for road maintenance operations in the amounts agreed upon with the Association;

(d) the Borrower has: (i) transferred the responsibility for maintaining rural roads from MLG to MOW; (ii) submitted an action plan satisfactory to the Association for the restructuring and privatization of PVPS; and (iii) adopted a training program satisfactory to the Association; and

(e) the Borrower has: (i) recruited the Financial Manager, the Contracts Manager, the Accountant and the Financial Controller Officer referred to in paragraph 2 (a) (ii) of Schedule 4 to this Agreement referred to in paragraph 2 (d) of Schedule 4 to this Agreement, all in accordance with the provisions of Section II of Schedule 3 to this Agreement; and (iii) appointed the Project Coordinator referred to in paragraph 2 (d) of Schedule 4 to this Agreement.

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

##### Representative 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:

Ministry of Finance  
P.O. Box 395  
Maseru 100  
Kingdom of Lesotho

Telex:

4367 LO  
4429 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.

KINGDOM OF LESOTHO

By /s/ Eunice Bulane

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto E. Madavo

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) Civil works for periodic maintenance under Part A.1 of the Project:		
(a) through December 1997	750,000	50%
(b) through December 1999	400,000	20%
(2) Civil works for rehabilitation and upgrading:		
(a) under Part A.2 of the Project	5,400,000	70%
(b) under Part A.3 (a) and A.5 of the Project	4,150,000	90%
(c) under Part A.3 (b) and A.4 of the Project	4,550,000	90%
(3) Equipment, vehicles and materials	600,000	100%
(4) Consultants' services	7,700,000	100%
(5) Unallocated	3,250,000	
	<hr/>	
TOTAL	26,800,000	
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2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods and services under contracts not exceeding \$100,000, and for works under contracts not exceeding \$500,000 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: (a) assist the Borrower in its efforts to sustain economic growth, inter alia, by generating new employment through the rehabilitation and maintenance of road transport infrastructure throughout the territory of the Borrower; and (b) strengthen the Borrower's capacity to plan, program and execute public investments in the road sector and to mobilize, in an efficient manner, adequate internal funding required for the purpose.

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: Roads Rehabilitation and Maintenance Works

1. Carrying out of periodic maintenance on a total of: (a) about 1,900 km of gazetted roads; and (b) about 1,050 km of rural roads.
2. Carrying out of works required to rehabilitate a total of: (a) about 200 km of selected gazetted roads; and (b) about 200 km of rural roads.
3. Upgrading of: (a) selected rural roads; and (b) main gravel roads.
4. Paving of about 90 km of selected gravel roads.
5. Rehabilitation of the Teyateyaneng Training Center.

#### Part B: Engineering Services

1. Carrying out of feasibility and detailed design studies for selected roads to be upgraded: (a) from gravel to paved standards; and (b) from earth to gravel standards.
2. Carrying out of engineering studies required for: (a) selected roads to be rehabilitated under Part A of the Project; and (b) the repair and maintenance of selected bridges.

#### Part C: Institutional Development and Capacity Building

1. Strengthening MOW's institutional capacity through the provision of technical advisory services and training to: (a) formulate and execute appropriate policies required to sustain the development of road transport infrastructures and to maintain them in good operating conditions; (b) plan, program and execute investments and roads maintenance operations on a regular schedule; (c) formulate and execute a manpower development plan; and (d) promote road safety, inter alia, through an efficient enforcement of traffic regulations and axle-load controls.
2. Streamlining the organizational structure of MOW with a view to entrusting full responsibility for the execution and supervision of roads construction and maintenance works to a single ministry through the provision of technical advisory services.
3. Carrying out of: (a) a feasibility study to establish a parastatal entity responsible for carrying out road construction and maintenance works; and (b) selected studies to: (i) assess the performance of the Road Fund; (ii) streamline the legal and regulatory framework of the road sector; and (iii) establish procedures and operational manuals setting forth technical and environmental protection standards to be followed in designing and supervising the execution of road works.
4. Strengthening the operations and management of the Road Fund.

5. Training of MOW's staff responsible for carrying out their respective parts of the Project in technical fields relevant for the purposes of the Project.

Part D: Small Contractors' Capacity Building

Formulation and implementation of a scheme designed to promote and sustain the development of a local capacity needed to ensure the maintenance and upgrading of roads infrastructure through the use of suitable contracting-out arrangements.

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

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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

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

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

(a) Dispute Review Board

Each contract for works estimated to cost \$100,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for works shall be grouped into bid packages estimated to cost the equivalent of \$500,000 or more each and contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more each.

Part C: Other Procurement Procedures

1. Procurement from UN Agencies

Contracts for vehicles estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$200,000, may be procured from the United Nations Inter Agency Procurement Service Organization in accordance with the provisions of paragraph 3.9 of the Guidelines.

2. National Competitive Bidding

Works estimated to cost less than \$500,000 equivalent per contract, and up to an aggregate amount not to exceed \$9,100,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. National Shopping

Contracts for office and training equipment estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 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.

#### 4. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,500,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

#### Part D: Review by the Association of Procurement Decisions

##### 1. Procurement Planning

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

##### 2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, and for works estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

##### 3. Post Review

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

#### Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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, such contracts shall be based on 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, other standard forms acceptable to the Association shall be used.

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 \$100,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$50,000 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 \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. The Borrower shall:

(a) take all measures necessary to ensure that the Project is carried out in conformity with the PIM and shall not make any change to the PIM which would materially or adversely affect the execution of the Project; and

(b) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof.

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

(a) maintain: (i) NRB (as an advisory council on road maintenance programming including the participation of road users) with membership, functions and responsibilities satisfactory to the Association; and (ii) FCMU with staff in adequate numbers and whose qualifications and experience shall be at all times satisfactory to the Association. Such staff shall include a Financial Manager, a Contracts Manager, an Accountant and a Financial Controller; and

(b) maintain PCC with membership and functions and responsibilities satisfactory to the Association. PCC shall be headed at all times by a Project Coordinator whose qualifications and experience shall be satisfactory to the Association.

3. The Borrower shall:

(a) prepare and submit annual investment and road maintenance programs and draft budgets related thereto for each fiscal year by March 31 of each year to the Association for its review and comments; and

(b) carry out the said programs in accordance with the timetable agreed upon with the Association;

4. Not later than March 31, 1998, the Borrower shall carry out jointly with the Association, a comprehensive mid-term review to assess the progress achieved in the execution of the Project.

(a) Without any limitation to the generality of the foregoing, the review shall cover the implementation and management aspects of the Project, including policy reforms, the performance and use of the technical assistance personnel, the role of national counterpart staff, the status and results of training, reporting accounting and audit performance, disbursement and procurement procedures, the functioning and the level of amounts deposited in the Road Fund, the progress achieved in building local small contractors' capacity and the overall sustainability of the Project.

(b) Not later than thirty days (30) days prior to the said mid-term review, the Borrower shall furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in implementing the various components of the Project, and a draft action plan containing proposals for remedying identified deficiencies.

(c) The Borrower shall, promptly thereafter: (i) prepare and adopt an action plan, acceptable to the Association, based on the recommendations stemming from the aforementioned review; and (ii) thereafter, carry out the said action plan for the remaining period of Project implementation.

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 \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 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 \$4,000,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for 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;

(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, 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.

