

CONFORMED COPY

CREDIT NUMBER 3105 LSO

Development Credit Agreement

(Agricultural Policy and Capacity Building Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 7, 1998

CREDIT NUMBER 3105 LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 7, 1998, between KINGDOM OF LESOTHO (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received a letter, dated May 15, 1998, from the Borrower describing a program of actions, objectives and policies designed to implement its institutional reform and sectoral development strategy in agriculture (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to contract from the African Development Bank (AfDB) a loan (the AfDB Loan) in an amount equivalent to \$1,500,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the AfDB Loan Agreement) to be entered into between the Borrower and AfDB;

(D) the Borrower intends to contract from the Department for International Development (DFID) of the United Kingdom a grant (the DFID Grant) in an amount equivalent to \$2,100,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the DFID Grant Agreement) to be entered into between the Borrower and DFID;

(E) the Borrower intends to contract from the German Agency for Technical Cooperation (GTZ) a grant (the GTZ Grant) in an amount equivalent to \$1,500,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the GTZ Grant Agreement) to be entered into between the Borrower and GTZ;

(F) the Borrower intends to contract from the European Union (EU) a grant (the EU Grant) in an amount equivalent to \$1,800,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the EU Grant Agreement) to be entered into between the Borrower and EU; 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), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

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

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country 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 Administrator, 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) "MOA" means the Borrower's Ministry of Agriculture, Cooperatives, Marketing and Youth Affairs;

(b) "Policy Analysis Team" means the team to be established pursuant to Part A.1(a) of the Project;

(c) "Unified Extension Service" means the unified extension service to be established pursuant to Part B. 1 of the Project;

(d) "Monitoring and Evaluation Team" means the team to be established pursuant to Part A.3(b) of the Project;

(e) "Change Process Management Team" means the team to be established pursuant to Part D.2 (b) of the Project;

(f) "Land Review Commission" means the commission to be established pursuant to Part C.1 of the Project;

(g) "DLSPP" means the Borrower's Department of Lands, Survey and Physical Planning;

(h) "IAPSO" means the Inter-Agency Procurement Services of the United Nations;

(i) "Inter-Ministerial Development Committee" means the Committee to be established pursuant to paragraph 3 (c) of Schedule 4 to this Agreement;

(j) "Project Implementation Plan" means the Project Implementation Plan to be prepared pursuant to paragraph 1 (a) of Schedule 4 to this Agreement;

(k) "Project Year" means the twelve-month period beginning from the Effective Date and ending twelve months thereafter (the First Project Year), and any twelve-month period beginning at the end of the First Project Year, or at the end of subsequent Project Years;

(l) "Districts" means the following districts of the Borrower, namely, Berea, Butha-Buthe, Leribe, Mafeteng, Maseru, Mohale's Hoek, Mokhotlong, Qacha's Nek, Quthing, and Thaba-Tseka, and the term "district" shall mean any of the aforementioned districts; 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 five million one hundred thousand Special Drawing Rights (SDR 5,100,000).

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 the Central Bank of Lesotho 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.

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 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 15 and December 15 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 15 and December 15 commencing December 15, 2008 and ending June 15, 2038. Each installment to and including the installment payable on June 15, 2018 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 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 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 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, financial, environmental, technical and agricultural 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. 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.

#### 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, 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 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 report of such audit referred to in paragraph (b) of this Section and that the report 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 (1) of the General Conditions, the following additional events are specified:

(a) a situation shall have arisen which shall make it improbable that the

Program or a significant part thereof will be carried out;

(b) the AfDB Loan Agreement, the DFID Grant Agreement, the GTZ Grant Agreement or the EU Grant Agreement shall have failed respectively to become effective by January 31, 1999 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(c) (i) subject to subparagraph (ii) of this paragraph: (A) the right of the Borrower to withdraw the proceeds of any loan or 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; or (B) any such loan shall have become due and payable prior to the agreed maturity thereof; and

(ii) subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring 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 (h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraphs (c) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c) (ii) of that Section.

#### ARTICLE VI

##### Effective Date; Termination

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

(a) the Borrower has established the Inter-Ministerial Development Committee; and

(b) the Borrower has furnished to the Association a Project Implementation Plan in form and substance satisfactory to the Association.

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

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Cable address:

Telex:

FINMIN  
Maseru

4367

For the Association:

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

Cable address:

Telex:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

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/ Leketekete Victor Ketso (Dr)

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Pamela Cox

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) Works	520,000	90%
(2) Equipment and vehicles	910,000	100% of foreign expenditures and 90% of local expenditures
(3) Consultants' services and studies	2,000,000	100%

(4)	Training and workshops	370,000	100%
(5)	Operating costs	740,000	90%
(6)	Unallocated	560,000	
		<u>5,100,000</u>	
	TOTAL	=====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "operating costs" means the incremental expenditures incurred on account of Project implementation, management and monitoring, including office supplies, vehicle operation, travel and supervision costs but excluding salaries of officials of the Borrower's civil service.

3. 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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) goods, works and services of consulting firms under contracts not exceeding \$100,000 equivalent; (ii) services of individual consultants under contracts not exceeding \$50,000 equivalent; and (iii) training, workshop and operating costs 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: (i) promote agricultural growth and reduce poverty; (ii) put in place improved institutional and policy arrangements for the sustainable and efficient management, financing and delivery of public and private agricultural services in the Borrower's territory; (iii) assist in redefining MOA's core public role with a view to facilitating increased private sector participation in the provision of certain agricultural support services; (iv) turn MOA into a more priority/target oriented and client responsive establishment; and (v) build up capacity, particularly at the district level, for agricultural planning and program implementation.

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: Sector Strategy and Management

1. (a) Strengthening MOA's capacity for essential policy analysis and strategy development, including the establishment of a Policy Analysis Team in MOA to: (i) assess the impact of the agricultural reform measures being undertaken under the Program; (ii) carry out or commission studies on the economic impact of external policy changes and domestic policy initiatives on agriculture; (iii) prepare an annual review of the state of the agricultural sector prior to the preparation of the Borrower's annual budget; and (iv) prepare periodic updates of the Borrower's agriculture sector strategy.

(b) Provision of training (including seminars and workshops), technical advisory services, and publications and acquisition of equipment.

2. (a) Strengthening of agricultural sector planning capacity at the central and



district levels, including the establishment of a planning and budgeting team in MOA to: (i) assist districts to design (A) economic development strategies, and (B) work plans and budgets based on needs assessment generated through the Unified Extension Service; (ii) synthesize economic development strategies and work plans and budgets into a national rolling development plan and expenditure framework for the sector; (iii) develop criteria for the determination of expenditure priorities; and (iv) incorporate lessons of experience as identified by the Policy Analysis Team and the Monitoring and Evaluation Team.

(b) Provision of training and technical advisory services (including workshops and seminars) and acquisition of equipment.

3. (a) Strengthening MOA's monitoring and evaluation capacity, including MOA's capacity to: (i) identify project impact, particularly on its client delivery system; (ii) establish performance indicators and an effective monitoring and evaluation system; (iii) generate essential sectoral management information including financial and administrative data; (iv) conduct sector performance analysis using a suitable external institution; and (v) establish an effective management information system for different levels of decision makers.

(b) Establishment in MOA of a Monitoring and Evaluation Team.

(c) Provision of training and technical advisory services (including workshops and seminars) and acquisition of vehicles and equipment.

#### Part B: Agricultural Support Services

1. The rationalization, decentralization and strengthening of the agricultural service delivery system in all districts of the Borrower's territory, including the establishment of (i) a unified extension service with decentralized services in all districts of the Borrower's territory, and (ii) clear research agenda and appropriate institutional arrangements, including the definition of roles of extension and research staff in respect of applied research to be carried out on individual farm plots.

2. (a) Support for district services and innovative activities including activities piloting new approaches, outsourcing of extension services and developing farmers' associations; and (ii) support for farming and community services including priority on-farm and community production activities, and acquisition of equipment for grazing associations, tree seedling distribution and seed and planting material production, marketing infrastructure and small scale irrigation.

(b) Strengthening the policy, management and monitoring capacity of MOA's technical services, including (i) a better definition of the support and incentive framework available to farmers and communities, in relation particularly to afforestation and conservation related activities, animal health functions, and the supply of seed and planting materials for commercial activities; (ii) marketing facilitation; and (iii) improvement of livestock base, including the monitoring and evaluation system of the technical services.

3. Provision of technical advisory services, the carrying out of studies and acquisition of equipment.

#### Part C: Land Management and Administration

1. The establishment of a land review commission to: (i) review the Borrower's land policy and legislation; (ii) synthesize new policy principles and administrative guidelines; and (iii) make recommendations regarding the drafting of a new body of land legislation.

2. Rationalization of all activities relevant to land administration, including (i) the integration of the Borrower's Deeds Registry into the Department of Land, Survey and Physical Planning for effective land management; (ii) decentralization of DLSP and personnel training; (iii) implementation of new business practice and management systems; (iv) modernization of the Deeds Registry and the cadastral information systems; and (v) the expansion of office space to facilitate full networking.

3. Strengthening of the Borrower's land information systems, including (i) the improvement of capacity for data gathering, analysis and dissemination; (ii) assisting the development of skills and the carrying out of awareness seminars; (iii) expansion of office space to house additional equipment; (iv) acquisition of equipment and vehicles; (v) provision of technical advisory services, studies, training (including workshops, familiarization tours and staff attachments and capacity building for monitoring and evaluation); and (vi) printing and dissemination of maps, reports and manuals.

4. Strengthening of spatial and physical land use planning in MOA and DLSP and the development of guidelines for district and community use.

5. Provision of technical advisory services, studies, training (including workshops and familiarization tours on land use planning) and acquisition of equipment and vehicles.

Part D: The Change Process Management

1. (a) Development and implementation of MOA's unified extension strategy, and restructuring and reorientating of its services and functions with a view to adequately addressing the needs and demands of its clients and communities.

(b) Assisting MOA in the outsourcing of some of its extension and research services to the private sector.

2. (a) Assisting MOA to carry out its restructuring plan including the decentralization and rationalization measures and strategies required for the implementation of MOA's core support services.

(b) The establishment of a Change Process Management Team to assist MOA with advice with respect to (i) the carrying out by MOA of the reform changes required under the Project; and (ii) the measures required in the areas of financial and human resource management, monitoring and evaluation, privatization and decentralization with particular reference to MOA's core agricultural services' delivery system to clients.

3. Strengthening human resource management in MOA including (i) the definition of a human resource management policy and the introduction of an effective human resource management system; (ii) assessment of future skill mix availability and requirements; (iii) assisting in, and development of, human resource management training requirements; and (iv) support for more effective communication systems in MOA and the Public Service.

4. Strengthening the budgeting and accounting systems of MOA and sub-accountancies at the district level, including the recruitment and/or deployment of proficient accountants to the districts.

5. The provision of technical advisory services, training (including workshops) and acquisition of equipment and vehicles.

6. Implementation of the Borrower's restructuring plan and program of privatizing selected agricultural enterprises, including: (i) the privatization of the clinical veterinary services and the veterinary drug stores; (ii) a review of the legal and regulatory framework for the privatization of veterinary services; (iii) the development of a framework for the privatization or transfer of wood lots; (iv) the construction of additional veterinary clinics in two districts; and (v) the establishment of a basic animal health service using the services of village veterinary workers in the remote parts of the Borrower's territory.

\* \* \*

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

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for the Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and in September 1997, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines), and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B: Grouping of Contracts To the extent practicable, contracts for vehicles and motorcycles shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

A limited number of vehicles, motorcycles, equipment and computers, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

A limited number of vehicles, motorcycles, equipment and computers, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured from IAPSO under contracts awarded in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$5,000 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.

5. Procurement of Small Works

Limited construction and rehabilitation works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 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 prequalify for bidding or 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 works or goods estimated to cost the equivalent of \$100,000 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

Part A: General

1. Consultants' services shall be procured in accordance with (a) 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, subject to the modifications thereto set forth in paragraph 2 of this Part A, (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the reference to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

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 for technical assistance and training under the Project, 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. Quality-based Selection

Services for training, research and extension under the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Single Source Selection

Services 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.

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 \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third 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 consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, 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.

(c) 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 D, 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) prepare and furnish to the Association a Project Implementation Plan satisfactory to the Association setting out: (i) the details of all procurement and disbursement arrangements for the Project; (ii) the performance indicators set out in the Annex to this Schedule, said indicators being subject to modification by agreement between the Borrower and the Association; and (iii) such other administrative, financial and organizational arrangements as shall be required for the Project; and

(b) carry out the Project in accordance with the provisions of this Schedule 4 and the procedures set out in the Project Implementation Plan.

2. The Borrower: (i) shall obtain the consent of the Association before making any material changes in the Project Implementation Plan; and (ii) shall not make any such changes in the said Plan that are, in the opinion of the Association, likely to affect materially or adversely the carrying out of the Project or the achievement of the objectives of the Project.

3. (a) MOA shall under the leadership of its Principal Secretary be responsible for overall policy guidance for, and operational direction to, the Project including matters pertaining to Project accounting and financial reporting. The Principal Secretary shall be assisted by the Change Process Management Team (which shall be assigned to MOA no later than January 1, 1999) in (i) the facilitation of (A) the overall institutional restructuring, (B) the Unified Extension Service, (C) privatization and divestiture, and (D) financial and human resource management; and (ii) such other measures as shall be required to carry out MOA's functions under Part D of the Project.

(b) The Borrower shall take all action necessary to facilitate the gradual

and phased devolution of Project implementation and decision making powers to the districts in accordance with a time schedule consistent with the progress of the decentralization reform being carried out by the Ministry of Local Government and a schedule satisfactory to the Association, said schedule being subject to modification by the Borrower in consultation with the Association.

(c) The Borrower shall establish an inter-ministerial development committee with composition and terms of reference satisfactory to the Association. The Inter-Ministerial Development Committee shall be responsible for the coordination of the Project.

(d) The Borrower's Ministry of Local Government shall: (i) be responsible for the carrying out of Part C of the Project; and (ii) furnish to the Association and to MOA the relevant reports pertaining to said Part of the Project.

(e) MOA's Department of Economics and Marketing with respect to Parts A, B and D of the Project, and the Ministry of Local Government with respect to Part C of the Project, shall respectively have overall responsibility for the systems and processes involved in Project reporting, monitoring and evaluation.

(f) The Borrower shall, beginning with its financial year 1999/2000, prepare a separate budget for each enterprise participating in the divestiture program included in the Project.

(g) The Borrower shall (i) no later than February 28, 1999 complete arrangements for the coming into operation of the Unified Extension Service; (ii) no later than June 30, 1999 bring the Unified Extension Service into full operation; and (iii) no later than February 28, 1999 establish the research agenda and the institutional arrangements required under Part B.1 of the Project.

4. The Borrower shall:

(a) 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;

(b) no later than November 1 each year, commencing from November 1, 1999, prepare, under terms of reference satisfactory to the Association, and furnish to the Association, 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 of 12 months immediately 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;

(c) review with the Association, by December 15, 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 Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter;

(d) carry out, jointly with the Association no later than 18 months after the Effective Date, a mid-term review of the progress made in carrying out the Project. The said mid-term review shall cover, among other things: (i) progress in meeting the Project's objectives; and (ii) the performance by the Borrower of its obligations under the Project; and

(e) carry out, no later than one month after the completion of the report of the mid-term review referred to in subparagraph (d) above, the recommendations of said review as agreed with the Association and set out in an action plan satisfactory to the Association.

5. (a) MOA shall: (i) prepare and furnish to the Association no later than November 30, 1998 an annual work plan and budgets for the Project, satisfactory to the Association for the First Project Year; (ii) thereafter, no later than November 30 in each year, prepare and furnish to the Association said plan and budgets for each

subsequent Project Year until the completion of the Project. Each said plan and budgets shall include: (A) a detailed procurement plan and a rolling three-year budget for the districts, and (B) criteria satisfactory to the Association for the carrying out of the components of the Project relating to training, extension services and district development expenditures priorities including support to developing farmers' associations, on-farm and community production activities and restructuring, decentralization and reform measures, said criteria being subject to modification by agreement between the Borrower and the Association; and (iii) carry out the Project for each Project Year in accordance with the work plan and budgets as agreed with the Association, and not amend in any material respect such work plan and budgets except with the approval of the Association.

(b) Without limitation to the Borrower's obligations under subparagraph (a) of this paragraph, MOA shall develop in consultation with the Borrower's Ministry of Economic Planning and furnish to the Association no later than June 30, 1999 criteria satisfactory to the Association for determining district development expenditure priorities.

(c) The Borrower shall: (i) prepare and furnish to the Association no later than June 30, 1999 agricultural development strategies for its 10 districts; and (ii) update, as necessary, said strategies and furnish said updated strategies to the Association no later than November 30 of the following year until the completion of the Project.

(d) The Borrower shall: (i) no later than one year after the Effective Date carry out a public expenditure review satisfactory to the Association for MOA and DLSP; and (ii) no later than two years after the Effective Date, prepare guidelines satisfactory to the Association for the carrying out by MOA and the Ministry of Local Government of decentralized district based implementation functions.

(e) The Borrower shall no later than: (i) September 30, 1998, complete and furnish to the Association a confirmed staffing inventory for MOA's headquarters and the districts; (ii) March 31, 1999 complete and furnish to the Association staff mapping for MOA in such detail as the Association shall require; and (iii) June 30, 1999, prepare and carry out to the satisfaction of the Association a training needs assessment for the Project.

(f) The Borrower shall no later than September 30, 1999: (i) complete a design, satisfactory to the Association, of improvements to a decentralized financial management system, including its monitoring and evaluation requirements; (ii) furnish to the Association an action plan, satisfactory to the Association, for improvements in the monitoring and evaluation systems of MOA and DLSP; and (iii) implement said action plan in a manner satisfactory to the Association.

#### Annex

##### Performance Indicators

1. (a) The Borrower's fiscal allocation to publicly financed agricultural services to be decreased by 15% in real terms by December 2001.

(b) MOA's share of budget spending at the district level to be increased to at least 60% of recurrent budget by December 2001, of which not more than 55% shall be allocated to personnel expenditures.

2. (a) The Unified Extension Service to be operational by December 2001 in the 10 districts with services delivered according to defined client categories and needs assessment.

(b) Improved land legislation proposals to be finalized by December 2001.

(c) The following actions to be taken with respect to the institutional restructuring of MOA:

(i) restructuring of district offices to be initiated by December 1998 and completed by December 2000;

1999 and (ii) rationalization of technical services to be initiated by December completed by December 2001;

completed by (iii) staff decentralization to be initiated by December 1999 and December 2000; and

(iv) a plan for divestment to be completed by March 1999.

(d) The Borrower to divest itself of its agricultural enterprises in accordance with the schedule set out in the Program.

(e) The financial management system and disaggregated accounting system for districts to be operational by December 1999.

(f) Initial MOA's public expenditure review based on 3 districts to be completed by September 1998, and the comprehensive MOA's public expenditure review based on the 10 districts and details of the Unified Extension Service to be completed by September 1999.

3. The Borrower's interventions in the agricultural sector to be phased out in accordance with the schedule set out in the Program.

4. (a) The Association to be furnished with details of the Borrower's economic strategy for agriculture and public services based on district economic strategies by September 1999. Said strategy to be used in the preparation of the Borrower's annual budget for fiscal year 2000/2001.

(b) The Borrower's strategy for agriculture to be revised by December 2000.

(c) MOA's monitoring and evaluation system and management information system to be operational by December 2000.

5. Research agenda for agriculture to be completed by September 1999.

6. Land Review Commission to be appointed by December 1998.

7. Modernization and up-dating of land records to be completed by December 2001.

8. Rationalization of the agricultural research institutions to be completed by December 1999.

9. Review of institutional location of MOA's non-core units together with an action plan to be ready by December 1999.

10. Privatization of agricultural enterprises to be carried out in accordance with the schedule set out in the Program.

11. MOA to furnish the Association by September 1998 with final staffing inventory for its headquarters and the districts.

12. The Borrower to formally approve and furnish to the Association by December 2000 its approved human resource management policy for MOA.

13. MOA to prepare and furnish to the Association by March 1999 the benchmarks for staffing levels and staff rationalization.

14. The Borrower to appoint and assign accountants to the 10 districts by December 1998.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) 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 \$750,000 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 2,000,000.

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 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 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 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.

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