

CONFORMED COPY

CREDIT NUMBER 2195 LSO

(Industrial and Agro-Industries Development Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 4, 1991

CREDIT NUMBER 2195 LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 4, 1991, 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) Part A.1 of the Project will be carried out by the Central Bank of Lesotho (Central Bank) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Central Bank part of the proceeds of the Credit as provided in this Agreement;

(C) Parts A.2, B.2 and D of the Project will be carried out by the Lesotho National Development Corporation (LNDC) with the Borrower's assistance and, as part of such assistance, the Borrower shall make available to LNDC part of the proceeds of the Credit as

provided in this Agreement;

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 and in the Project Agreements of even date herewith between the Association and the Central Bank and, the Association and LNDC, respectively;

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 in Schedule 6 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated February 13, 1989, and March 3, 1989, between the Borrower and the Association;

(b) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(c) "Subsidiary Loan Agreement" means the agreement entered into between the Borrower and the Central Bank pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Subsidiary Loan Agreement;

(d) "Subsidiary Agreement" means the agreement entered into between the Borrower and LNDC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Subsidiary Agreement;

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

(f) "Central Bank" means the Central Bank of Lesotho established pursuant to the Central Bank of Lesotho Act, No. 2 of 1982;

(g) "LNDC" means the Lesotho National Development Corporation established pursuant to the Lesotho National Development Corporation Act, No. 20 of 1967, as amended;

(h) "LADB" means the Lesotho Agricultural Development Bank established pursuant to Lesotho Agricultural Development Bank Act No. 5 of 1976, as amended;

(i) "BAPS" means the Business Advisory Promotion Services, to be established under the Project;

(j) "IPC" means the Investment Promotion Center to be established under the Project within LNDC;

(k) "BEDCO" means the Basotho Enterprises Development Corporation established pursuant to the Basotho Enterprises Development Corporation Act of 1980 as amended;

(l) "Central Bank Project Agreement" means the agreement between the Association and the Central Bank, of even date herewith, as the same may be amended from time to time, and such term includes

all schedules and agreements supplemental to the Central Bank Project Agreement;

(m) "LNDC Project Agreement" means the agreement between the Association and LNDC, of even date herewith, as the same may be amended from time to time, and such term includes all Schedules and agreements supplemental to the LNDC Project Agreement;

(n) "PB" or "Participating Bank" means any one of the following banks: Lesotho Bank, Barclays Bank, Standard Chartered Bank, LNDC and LADB;

(o) "Participating Bank Agreement" means each of the loan agreements to be entered into by Central Bank and each of the Participating Banks pursuant to Section 3.01 (b) of this Agreement whereby Central Bank will provide said Participating Banks with funds for Sub-loans;

(q) "Sub-loan" means a loan made or proposed to be made under Part A.1 of the Project by a Participating Bank for an Investment Project from the proceeds of the Credit relented to the Participating Bank pursuant to a Participating Bank Agreement.

(p) "Investment Enterprise" means an Enterprise to which a Participating Bank proposes to make or has made a Sub-loan;

(r) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(s) "Investment" means an investment other than a Sub-loan, made or proposed to be made by LNDC under Part A.2 of the Project, out of the equivalent of the proceeds of the Credit made available to LNDC under the Subsidiary Agreement;

(t) "Statement of Policy" means the Statement of Investment Policy Principles and Operating Procedures approved by the Directors of LNDC dated July 15, 1979, as amended from time to time;

(u) "SME" means a Small or Medium Scale enterprise;

(v) "Fund" means the Mutual Fund called Lesotho Investment Holdings to be utilized by LNDC for making equity investments;

(w) "Agro-Industrial Parastatal" means any of the following agro-industrial parastatals to be assisted under the Project: National Abattoir and Feedlot Complex, the Poultry Hatchery, the Milk Processing Plant and Collection Centers, and Lesotho Poultry Cooperative Society; and

(x) "Statement of Industrial and Financial Policy" means the Statement of the Borrower's industrial, agro-industrial and financial policy reforms undertaken in the context of this Project.

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 this Agreement, an amount in various currencies equivalent to fifteen million one hundred thousand Special Drawing Rights (SDR 15,100,000).

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: (i) amounts paid (or, if the Association shall so agree, to be paid) by the Central Bank on account of withdrawals made by an Investment Enterprise under a Sub-Loan or Investment to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or if the Association shall so agree, to be made) in

respect of the reasonable cost of goods, works and services required for Parts B, C, D and E of the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars two special deposit accounts (Special Account A for purposes of Part A.1 of the Project, and Special Account B for purposes of the rest of the Project) in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 1996, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one 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 April 15 and October 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 April 15 and October 15 commencing April 15, 2001, and ending October 15, 2030. Each installment to and including the installment payable on October 15, 2010, 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 considera-

tion 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.

Section 2.09. The Central Bank is designated as representative of the Borrower in respect of Part A.1 of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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:

- (i) shall carry out Parts B.1, B.3, B.4, C and E of the Project, with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause the Central Bank and LNDC to perform all their obligations set forth in the Central Bank Project Agreement and LNDC Project Agreement, respectively, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Central Bank and LNDC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend \$4,700,000 equivalent, from the proceeds of the Credit, to the Central Bank under a subsidiary loan agreement entered into between the Borrower and the Central Bank under terms and conditions which shall have been approved by the Association, which shall include, inter alia: (i) an undertaking by the Central Bank to make loans to Participating Banks, under Participating Bank Agreements to be entered into with each Participating Bank, for financing Investment Projects specified in Part A.1 of the Project, under terms and conditions specified in the Central Bank Project Agreement; (ii) that the proceeds of the Credit shall be relent at an interest rate which is one percent (1%) less than the onlending rate to the PBs referred to in Schedule 2 to the

Central Bank Project Agreement.

(c) The Borrower shall: (i) make available \$1,900,000 equivalent, from the proceeds of the Credit for Part A.2 of the Project to LNDC under a subsidiary agreement entered into between the Borrower and LNDC, under terms and conditions which shall have been approved by the Association which shall include, inter alia, that (A) LNDC shall manage the funds on behalf of the Borrower, (B) the Borrower shall bear the foreign exchange risk, (C) any dividend or capital gain shall be passed back to the Fund on Borrower's account, unless such dividend or capital gain is required by the Borrower to fulfill its obligations under Sections 2.05, 2.06 and 2.07 of this Agreement, and (D) LNDC shall be paid a fee to manage such funds on behalf of the Borrower; and (ii) relend \$2,500,000 equivalent, from the proceeds of the Credit, for Part D of the Project, to LNDC under a subsidiary agreement entered into between the Borrower and LNDC, under terms and conditions which shall have been approved by the Association which shall include, inter alia, that (A) the funds shall be lent at an annual interest rate of 8.8% for a period of twenty years including a grace period of three years, and (B) LNDC shall bear the foreign exchange risk.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement and the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement, the Subsidiary Agreement or any provision thereof.

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. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03 through 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A.1 of the Project shall be carried out by the Central Bank and in respect of Parts A.2, B.2 and D of the Project by LNDC, pursuant to Section 2.07 of the Central Bank Project Agreement and Section 2.04 of the LNDC Project Agreement, respectively.

Section 3.04. The Borrower shall cause LADB to: (a) maintain its management policy of halting branch expansion and maintaining market interest rates; (b) by March 31, 1992, prepare and furnish to the Association for its review and comments LADB's Strategic Corporate Action Plan; (c) by June 30, 1992, discuss with the Association and reach agreement on, key steps to be undertaken to strengthen LADB; and (d) promptly thereafter implement measures identified in such plan, to put LADB on a financially viable basis, including, but not limited to expanding LADB's mandate to include commercial banking.

Section 3.05. The Borrower shall by October 31, 1991, cause BEDCO to: (a) carry out a reorganization consistent with its new focus on provision of industrial estate and workshop facilities and on project preparation assistance to SME's; (b) implement a cost recovery rental policy satisfactory to the Association; and (c) carefully screen SME's admitted to industrial estates to ensure their full-time commitment to the enterprise and the viability of their business.

Section 3.06. The Borrower shall, until completion of the Project, maintain its Agro-Industries Task Force, consisting of the Principal Secretaries of the Ministries of Planning and Agriculture, MTI and the Managing Director of LNDC, which shall, inter alia, coordinate activities under Part C of the Project.

Section 3.07. The Borrower shall execute agreements with each Agro-industrial Parastatal under Part C of the Project, which shall

provide inter alia: (a) details of the agro-industrial reforms being carried out by the Borrower; (b) that such parastatal is to operate on a commercial basis; and (c) that the proceeds of the Credit shall be lent to the parastatals at an annual interest rate of 8.0% for a period of twenty years including a grace period of three years.

Section 3.08. The Borrower shall cause Lesotho Bank to: (a) by March 31, in each year prepare and furnish to the Association, the training program under Part E.1 of the Project for the following year, in bank management, project appraisal and supervision; and (b) manage the training on behalf of PBs and financial institutions.

Section 3.09. The Borrower shall by March 31, 1993, carry out a joint mid-term review of Project implementation, and thereafter implement actions agreed upon during such review, in consultation with the Association.

Section 3.10. The Borrower shall establish and maintain, an Investment Promotion Committee, to be chaired by the Principal Secretary of MTI and consisting, inter alia, of the Principal Secretaries of the Ministries of Planning and Finance as well as the Managing Director of LNDC, to coordinate and supervise all policies and investor services, with regard to investment promotion under the Project.

Section 3.11. The Borrower shall: (a) develop and adopt a formula for cost sharing of the costs of main distribution lines between end users and the Lesotho Electricity Corporation and Lesotho Telecommunications Corporation respectively; and (b) develop construction standards and procurement arrangements, satisfactory to the Association, to be applied to electric infrastructure.

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 Parts B.1, C and E 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 Accounts 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 for the Project were made on the basis of statements of expenditure, the Borrower shall:

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

- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

- (a) The Central Bank or LNDC shall have failed to perform any of their respective obligations under their respective Project Agreements.
- (b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Central Bank or LNDC will be able to perform their respective obligations under their respective Project Agreements.
- (c) The Central Bank Act or LNDC Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Central Bank or LNDC to perform any of their respective obligations under their respective Project Agreements.
- (d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Central Bank or LNDC or for the suspension of their respective operations.
- (e) An event has occurred which shall make it improbable that the reforms in the Statement of Industrial and Financial Policy or a significant part thereof, will be carried out.

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

- (a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and
- (b) any event specified in paragraphs (c) and (d) 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 this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Loan Agreement and Subsidiary Agreement have been executed on behalf of the Borrower and Central Bank, and the Borrower and LNDC, respectively; and

(b) at least one Participating Bank Agreement has been executed between the Central Bank and a PB.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreements have been duly authorized or ratified by the Central Bank and LNDC respectively, and are legally binding upon the Central Bank and LNDC in accordance with their terms; and

(b) that the Subsidiary Loan Agreement and Subsidiary Agreement have been duly authorized or ratified by the Borrower, the Central Bank and LNDC and are legally binding upon the Borrower and the Central Bank and, the Borrower and LNDC, respectively, in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister at the time 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
Lesotho

Cable address:

FINMIN
Maseru

Telex:

4330 LO
4367 LO

Fax:

310157

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/ T. W. van Tonder
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox
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) Goods and services for Investment Projects under Part A.1 of the Project | 3,367,000 | 80% |
| (2) Goods and services for Investments under Part A.2 of the Project | 1,361,000 | 100% |
| (3) Civil works for Part D of the Project | 537,000 | 80% |
| (4) Equipment for Part D of the Project | 1,254,000 | 100% of foreign expenditures |
| (5) Equipment for the other Parts of the Project | 143,000 | 100% of foreign expenditures and 85% of local expenditures |
| Category | Amount of the Loan Allocated (Expressed in SDR Equivalent) | % of Expenditures to be Financed |
| (6) Consultants' services and studies | | 100% |
| (a) For Part C | 3,009,000 | |

| | | | |
|------|---|------------|---|
| | of the Project | | |
| (b) | For the other Parts of the Project | 3,367,000 | |
| (7) | Training | 430,000 | 100% |
| (8) | Training for Part E.5 of the Project | 143,000 | 100% |
| (9) | Refunding of Project Pre- paration Advance | 107,000 | Amounts due pur- suant to Sec- tion 2.02 (c) of this Agreement |
| (10) | Unallocated | 1,382,000 | |
| | TOTAL | 15,100,000 | ===== |

2. For the purposes of this Schedule:

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

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

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

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

(b) for expenditures with respect to Category (1) to

(i) LNDC until it has, (A) adjusted its interest rate to its sub-borrowers to at least the prime rate of interest for all credit lines or to a level which would allow LNDC to cover the costs of its lending operations and ensure sustainability of its operations, (B) prepared for the implementation of a resource mobilization mechanism acceptable to the Association, (C) submitted to the Association an action plan to increase income, reduce costs and improve loan collection performance on its loan operations, and

(ii) to LADB until it has: (A) implemented its technical assistance program; (B) implemented a viable plan for its recapitalization; (C) put in place systems adequate to manage its loan portfolio; and (D) implemented key aspects of its Strategic Corporate Action Plan referred to in Section 3.04 of this Agreement;

(c) for expenditures to a Participating Bank, with respect to Category (1) above until (i) such Participating Bank has entered into a Participating Bank Agreement, satisfactory to the Association, with the Central Bank; and (ii) the Association has approved the first three Investment Projects submitted by such Participating Bank under Section 2.02 (c) of the Central Bank Project Agreement;

(d) for expenditures with respect to Category (6) (a) until:
(i) the policy measures referred to in the Statement of Industrial

and Financial Policy, which affect the performance of the Agro-Industrial Parastatal concerned have been implemented, and (ii) such Agro-Industrial Parastatal has entered into an agreement satisfactory to the Association, with the Borrower;

(e) for expenditures with respect to Category (6) until the Borrower has implemented arrangements, satisfactory to the Association, for the administration of training under the Small Business Development Fund; and

(f) for expenditures with respect to Categories (3) and (4) until the Borrower has (i) adopted the cost sharing formula, satisfactory to the Association, referred to in Section 3.11 (a) of this Agreement, and (ii) adopted the construction standards and procurement arrangements referred to in Section 3.11 (b) of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to promote increased indigenous and foreign direct investment in Lesotho's industrial and agro-industries sectors.

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: Financial Sector

1. A line of credit to be made available, through the Central Bank, to Participating Banks for provision of medium- and long-term credit for private sector industrial and commercial projects, including agro-industries, small- and medium-scale enterprises, export financing and private industrial estate development.
2. Venture capital investments in small- and medium-scale enterprises.

Part B: Investment Promotion

1. Establishment of a Business Advisory and Promotion Service within MTI, to coordinate information about business opportunities and advisory and training services to indigenous enterprises.
2. Establishment of the Investment Promotion Center within LNDC, to carry out investment promotion and provide one-stop investor services to foreign and larger enterprises.
3. Carrying out of two assessments to gauge investor attitudes with respect to the investment environment and quality of services offered by BAPS and IPC.
4. Advisory support and training for BAPS and IPC staff.

Part C: Agro-Industrial Development

Strengthening the management and performance of five Borrower-owned agro-industrial enterprises through the provision of management support and training.

Part D: Industrial Infrastructure

Construction and provision of road, electric, water and telecommunications infrastructure for industrial estates.

Part E: Institutional Strengthening and Training

1. Training in bank management, project appraisal and loan portfolio management for staff of PBs, LNDC, LADB, BEDCO and the Lesotho Manufacturers Association.

2. Reorganization and reorientation of BEDCO activities towards the provision of industrial space and project preparation assistance.
3. Strengthening LNDC in the fields of management accounting and information systems, property management, and credit and equity portfolio appraisal and management.
4. Strengthening of LADB in the field of credit and portfolio management, internal audits and financial management as well as the establishment of a management information system.
5. Establishment of a Small Business Development Fund to support improvement of the skill level of entrepreneurs and professional staff in SME support institutions through training and seminar programs.
6. Strengthening and expansion of in-service training and skills testing programs collaboratively designed by businesses and the Borrower's vocational and training education system.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part B hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Other Procurement Procedures

1. Items or groups of items for goods and civil works estimated to cost the equivalent of \$100,000 or less per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.
2. Items or groups of items for equipment estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$400,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part C: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for equipment estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4

of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Association has authorized withdrawals on the basis of statements of expenditure.

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

Section II. Employment of Consultants

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

SCHEDULE 4

Modifications of General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. The last sentence of Section 3.02 is deleted.
2. The following subparagraph is added to Section 2.01:

"15. The term 'Project Agreement' has the meaning set forth in paragraph (b) of Section 1.02 of the Development Credit Agreement."

3. The words "the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (e) by the date specified in sub-paragraph 6 (b) of Schedule 1 to the Central Bank Project Agreement, the Association shall, in respect of any portion of the Credit: (i) have received no applications or requests permitted under subparagraphs (a) of said paragraph; or (ii) have denied any such applications or requests, the Association may, by notice to the Borrower, terminate the right to submit such applications or approvals or to make withdrawals from the Credit Account, as the case may be, with respect to such amount or portion of the Credit. Upon the giving of such notice, such amount or portion of the Credit shall be cancelled."

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Category (1) for Special Account A and Categories (2) through (8) for Special Account B set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for

the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,800,000 for Special Account A and \$800,000 for Special Account B to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for Part A.1 of the Project with respect of Special Account A, and the other Parts of the Project with respect to Special Account B, 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 respective Parts of the Project, shall equal the equivalent of twice the amount of the respective Authorized Allocation.

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

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

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

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

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

