Development Credit Agreement
(Thaba Bosiu Rural Development Project)

BETWEEN

KINGDOM OF LESOTHO

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

DATED MARCH 23, 1973
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DATED MARCH 23, 1973
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 23, 1973, between KINGDOM OF LESOTHO (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association).

WHEREAS (A) The Borrower has requested the Association to assist in the financing of the Project described in Schedule 2 to this Agreement by extending the Credit as hereinafter provided;

(B) The Borrower has also requested the Agency for International Development, an agency of the Government of the United States of America (hereinafter called AID) to provide additional assistance towards the financing of Part H of the Project, and AID has approved, subject to available funding, a six-year program to provide such assistance as a grant in an estimated aggregate amount equivalent to two million eight hundred thousand dollars ($2,800,000); and

(C) By an agreement dated February 26, 1973 between the Borrower and AID, AID has agreed to provide assistance for the first two years of such program, in an aggregate amount equivalent to one million and fifty-six thousand dollars ($1,056,000).

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 hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 31, 1969, with the same force and effect as if they were fully set forth herein, subject, however, to the deletion of Sections 5.01 and 6.02(h) thereof and to the renumbering of Section 6.02(i) into 6.02(h) thereof (said General Conditions Applicable to Development Credit Agreements of the Association, as so modified, being hereinafter called the General Conditions).
Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Authority" means the Thaba Bosiu Rural Development Project Authority established pursuant to Order No. 9 of March 2, 1973 of the Borrower's Council of Ministers (The Development Projects Order 1973) and under Legal Notice No. 11 of March 2, 1973 of the Borrower (The Thaba Bosiu Rural Development Project Regulations 1973), and includes any successor thereto.

(b) "AID Agreement" means the agreement dated February 26, 1973 between the Borrower and AID for the purpose of Part H of the Project, as such agreement may be amended from time to time, and such term includes all agreements supplemental to the AID Agreement, all subsequent agreements providing funds to the Borrower pursuant to the program referred to in Recital (B) of this Agreement and all schedules and annexes to the AID Agreement.

(c) "AID" means the Agency for International Development, an agency of the Government of the United States of America, and includes any successor agency.

(d) "beneficiary" means any farmer, farmer-association, registered cooperative society or small agricultural contractor in the Project Area, who is qualified to receive credit services under Part A of the Project.

(e) "Project Manager" means the person serving as the chief executive officer of the Authority, referred to in Section 3.02(a) of this Agreement.

(f) "Project Area" means an area of about 300,000 acres comprising most of the Phuthiatsana (Little Caledon) Watershed and Berea Plateau, as defined in the Thaba Bosiu Rural Development Project Regulations 1973 of the Borrower.

(g) "Project Period" means the period during which the proceeds of the Credit will be disbursed.

(h) "CLL" means the Co-op Lesotho Limited, a cooperative society established pursuant to Proclamation No. 47 of 1948 of the Borrower, and includes any successor thereto.
ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions in the Development Credit Agreement set forth or referred to, an amount in various currencies equivalent to five million six hundred thousand dollars ($5,600,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule shall be amended from time to time, 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 and to be financed under the Development Credit Agreement; provided, however, that, except as the Association shall otherwise agree, no withdrawal shall be made on account of expenditures in the territories of any country which is not a member of the Bank (other than Switzerland) or for goods produced in, or services supplied from, such territories.

Section 2.03. Except as the Association shall otherwise agree, the goods and services (other than services of consultants) required for the Project and to be financed out of the proceeds of the Credit, shall be procured on the basis of procedures consistent with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in April 1972, as revised in October 1972, and in accordance with, and subject to, the provisions set forth in Schedule 3 to this Agreement.

Section 2.04. The Closing Date shall be December 31, 1979 or such other date as shall be agreed between the Borrower and the Association.

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

Section 2.06. Service charges shall be payable semi-annually on February 1 and August 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 1 and August 1 commencing August 1, 1983, and ending February 1, 2023, each installment to and including the installment payable on February 1, 1993 to be one-half of one per cent (1/2 of 1%) of such principal amount, and each installment thereafter to be one and one-half per cent (1-1/2%) of such principal amount.
Section 2.08. The currency of United Kingdom of Great Britain and Northern Ireland is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. The Project Manager is designated as representative of the Borrower 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 shall carry out, or cause the Authority to carry out, the Project with due diligence and efficiency and in conformity with appropriate administrative, agricultural, engineering and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation or restriction upon the provisions of subsection (a), the Borrower shall, notwithstanding any suspension, cancellation or termination of provision of funds by AID under the AID Agreement, make available to the Authority, promptly as required, the funds, facilities, services and other resources required to enable the Authority to carry out Part H of the Project.

Section 3.02. Except as the Association shall otherwise agree: the Borrower shall: (a) cause the Authority to employ, during the Project Period, persons with qualifications and experience acceptable to the Association on terms and conditions satisfactory to the Association, to serve in the following positions: Project Manager; Financial Controller; and the heads, respectively, of its Land Planning and Soil Conservation Division, Extension Division and Marketing and Credit Division.

(b) cause the Authority to employ, at all times during the Project Period, a sufficient number of qualified staff to carry out the Project, on terms and conditions which shall have been approved by the Association.

Section 3.03. Except as the Association shall otherwise agree, the Borrower shall:

(a) make the proceeds of the Credit, the proceeds under the AID Agreement and funds referred to in Section 3.01 of this Agreement available to the Authority as a grant;
(b) establish and maintain a bank account for the Project (other than that part of the Project financed by AID) (hereinafter called The Project Bank Account) subject to the control of the Project Manager;

(c) adjust and replenish the amount in the Project Bank Account at monthly intervals to a level at least equivalent to the estimated amount of payments to be made for goods and services required for the Project less the estimated amounts of payments to be made directly by the Association to the suppliers, consultants or contractors for such goods and services, during the next three months' period; and

(d) cause the Project Manager to be appointed the Chief Accounting Officer of the Authority.

Section 3.04. (a) The Borrower may, to the extent practicable, use its own staff to carry out Part G of the Project.

(b) Subject to the provisions of subsection (a) hereof, in carrying out construction works under the Project (other than Part H), the Borrower shall employ or cause to be employed qualified and competent consultants and contractors.

Section 3.05. Except as the Association shall otherwise agree, the Borrower shall cause the Authority:

(a) to carry out Part A of the Project in accordance with the lending policies and procedures set forth in Schedule 4 to the Development Credit Agreement.

(b) to be the sole governmental agency responsible for credit operations other than those included in Part A of the Project in the Project Area but may authorize other institutions to undertake such credit operations on terms and conditions acceptable to the Authority.

Section 3.06. The Borrower agrees that the roads, markets, stores, staff housing and other buildings to be constructed under the Project shall be in locations, and shall conform to design standards, acceptable to the Association.

Section 3.07. (a) Except as the Association shall otherwise agree, in carrying out Part A of the Project the Borrower shall:
(i) cause to be established and maintained a Project Credit Account which shall reflect all credit operations included under Part A of the Project;

(ii) ensure that adequate provision is made to meet the estimated credit needs under Part A of the Project with funds from (a) contributions by the Borrower including the proceeds of the Credit allocated for Part A of the Project, (b) contributions by the beneficiaries, and (c) debt repayments of the beneficiaries; and

(iii) cause control over the Project Credit Account to be vested in the Chief Credit and Marketing Officer of the Authority, subject to the general direction of the Project Manager.

(b) If the Borrower shall at any time during the Project Period wish to carry out Part A of the Project through any organization other than the Authority, the Borrower shall first obtain the consent of the Association and shall cause the Authority and such organization to enter into an agreement satisfactory to the Association, providing for the respective obligations of the Authority and such organization towards the carrying out of the Part A of the Project.

(c) The Borrower shall at all times, take or cause to be taken all necessary steps to ensure that credit provided under the Project will be repaid by the beneficiaries, including if required, the exercise of all available legal remedies against delinquent beneficiaries.

Section 3.08. (a) Except as the Association shall otherwise agree, the Borrower shall:

(i) cause the Authority to be the agent of CLL for commodity purchases and marketing in the Project Area;

(ii) cause CLL to carry on its operations on a commercial basis; and

(iii) make arrangements to obtain from commercial banks or other financial institutions, adequate financing for commodity purchases and marketing under the Project, at a rate of interest not less favorable than the then prime rate on government overdrafts, including, without limitation, if required, the guaranteeing of all such financing.
(b) If the Borrower shall at any time during the Project Period wish to place responsibility for marketing of produce in the Project Area in any organization other than the Authority, the Borrower shall cause the Authority and such organization to enter into an agreement, satisfactory to the Association, providing for the respective obligations of the Authority and such organization towards the carrying out of Part C of the Project.

Section 3.09. The Borrower shall make available or cause to be made available to the Authority the necessary facilities at (i) the Borrower's existing Matelas Farmer Training Center, and (ii) at the Borrower's existing tractor school at Maseru, for the carrying out of Part D of the Project.

Section 3.10. The Borrower shall at all times maintain and repair or cause to be maintained and repaired, all roads included under Parts G and H of the Project, in accordance with appropriate engineering and administrative practices, and shall make available, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.11. The Borrower shall not implement or permit to be implemented the construction of any soil conservation works included under Part H of the Project, unless prior to such implementation, arrangements satisfactory to the Authority for the maintenance and protection of such works shall have been made with appropriate authorities, including the beneficiaries and chiefs in the area affected by such works.

Section 3.12. The Borrower shall, by the dates indicated below or such later dates as shall be agreed to by the Association, submit or cause to be submitted to the Association for the Association's approval:

(a) specific plans for the carrying out of training programs under Part D of the Project by June 1, 1973; and

(b) specific plans for the carrying out of agricultural research under Part E of the Project by October 1, 1973.

Section 3.13. The Borrower shall take all necessary measures to prevent overstocking of livestock and impose grazing control within the area included in Part F of the Project, and shall submit by June 30, 1974 to the Association for approval specific plans for the implementation of such measures.

Section 3.14. (a) The Borrower undertakes to insure, or cause to be insured, or make or cause to be made adequate provision for the insurance of, the imported
goods to be financed out of the proceeds of the Credit against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

(b) Except as the Association shall otherwise agree, all goods and services financed out of the proceeds of the Credit shall be used exclusively for the Project until its completion.

Section 3.15. (a) The Borrower shall furnish to the Association, promptly upon their preparation, the plans, specifications, contract documents and work and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Association shall reasonably request.

(b) The Borrower: (i) shall maintain or cause to be maintained records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Credit, and to disclose the use thereof in the Project; (ii) shall enable the Association's accredited representatives to examine the Project, the goods financed out of the proceeds of the Credit and any relevant records and documents; and (iii) shall furnish or cause to be furnished to the Association all such information as the Association shall reasonably request concerning the Project, the expenditure of the proceeds of the Credit and the goods and services financed out of such proceeds.

(c) Without limiting or restricting the generality of the provisions of subsection (b), and except as the Association shall otherwise agree, the Borrower shall cause the Authority (i) at all times during the Project Period, to maintain an evaluation unit to monitor the progress of the Project and to collect and evaluate agricultural, economic, financial, technical and other data for the preparation of similar rural development projects in other areas, and (ii) to prepare and submit to the Association, quarterly reports and not later than three months after the end of each fiscal year of the Authority, annual reports of Project progress, in scope satisfactory to the Association.

Section 3.16. (a) The Borrower shall take all such action as shall be necessary to acquire as and when needed all such land and rights in respect of land as shall be required for the construction and operation of the facilities included in the Project.

(b) The Borrower shall make available to the Authority for purposes of the Project, without cost to the Authority, suitable land (i) for construction and operation of the markets and stores included under Part C of the Project; and
(ii) for all office buildings, workshops, laboratories, stores and staff housing required for the Project.

ARTICLE IV

Other Covenants

Section 4.01. (a) The Borrower shall cause the Authority to maintain records adequate to reflect in accordance with consistently maintained appropriate accounting practices the operations and financial condition of the Authority.

(b) The Borrower shall cause the Authority to: (i) maintain separate accounts in commercial form showing the results of each of its activities under the Project; (ii) furnish to the Association, within 60 days after the end of each quarter or fiscal year, quarterly summaries of its accounts and financial statements, and draft annual financial statements; (iii) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with sound auditing principles consistently applied, by the Auditor General of the Borrower or other independent auditors acceptable to the Association; (iv) furnish to the Association as soon as available, but in any case not later than three months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and (v) furnish to the Association such other information concerning the accounts and financial statements of the Authority and the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. The Borrower undertakes that:

(a) it will consult with the Association regarding its policies affecting (i) the prices at which commodities produced by farmers participating in the Project are purchased and sold and (ii) the marketing of such commodities sufficiently in advance of the implementation of such policies for the Association's comments to be considered; and

(b) in establishing the policies referred to in subsection (a) hereof, it will take due account of market conditions and incentives for farmers participating in the Project.

Section 4.03. The Borrower shall cause the Authority to take out and maintain with responsible insurers, or to make other provision satisfactory to the
Association for, insurance against such risks and in such amounts as shall be consistent with sound practice.

ARTICLE V

Consultation, Information and Inspection

Section 5.01. The Borrower and the Association shall cooperate fully to assure that the purposes of the Credit will be accomplished. To that end, the Borrower and the Association shall from time to time, at the request of either party:

(a) exchange views through their representatives with regard to the performance of their respective obligations under the Development Credit Agreement, the administration, operations, resources and expenditures of the Authority and, in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out any part of the Project, and other matters relating to the purposes of the Credit; and

(b) furnish to the other all such information as it shall reasonably request with regard to the general status of the Credit. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower, including its balance of payments, and the external debt of the Borrower, of any of its political subdivisions and of any agency of the Borrower or of any such political subdivision.

Section 5.02. (a) The Borrower shall furnish or cause to be furnished to the Association all such information as the Association shall reasonably request concerning the administration, operations, resources and expenditures of the Authority and, in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out any part of the Project.

(b) The Borrower and the Association shall promptly inform each other of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit, the maintenance of the service thereof or the performance by either of them of its obligations under the Development Credit Agreement.

Section 5.03. The Borrower shall afford all reasonable opportunity for accredited representatives of the Association to visit any part of the territories of the Borrower for purposes related to the Credit.
ARTICLE VI

Taxes and Restrictions

Section 6.01. The principal of, and service charges on, the Credit shall be paid without deduction for, and free from, any taxes imposed under the laws of the Borrower or laws in effect in its territories.

Section 6.02. The Development Credit Agreement shall be free from any taxes on or in connection with the execution, delivery or registration thereof, imposed under the laws of the Borrower or laws in effect in its territories.

Section 6.03. The payment of the principal of, and service charges on, the Credit shall be free from all restrictions, regulations, controls and moratoria of any nature imposed under the laws of the Borrower or laws in effect in its territories.

ARTICLE VII

Remedies of the Association

Section 7.01. If any event specified in Section 7.01 of the General Conditions or in Section 7.03 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Association, at its option, may by notice to the Borrower declare the principal of the Credit then outstanding to be due and payable immediately together with the service charges thereon and upon any such declaration such principal and service charges shall become due and payable immediately, anything to the contrary in the Development Credit Agreement notwithstanding.

Section 7.02. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified:

(a) The Development Projects Order 1973 of the Borrower or the Thaba Bosiu Rural Development Project Regulations 1973 shall have been amended, suspended, abrogated, repealed or waived without the prior agreement of the Association.

(b) AID shall have suspended disbursements under the AID Agreement or the AID Agreement shall have been terminated pursuant to paragraph P of the Standard Provisions Annex thereto.
Section 7.03. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 7.02 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.

(b) the event specified in paragraph (b) of Section 7.02 of this Agreement shall occur and the Borrower shall fail to obtain funds from other sources in substitution therefor, on terms and conditions satisfactory to the Association, within a period of one hundred and twenty days.

ARTICLE VIII

Effective Date; Termination

Section 8.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 10.01(b) of the General Conditions:

(a) that the AID Agreement, in form and substance satisfactory to the Association, has been duly executed and authorized or ratified by all necessary governmental action and has entered into force pursuant to the terms thereof; and

(b) that the Project Manager has been employed by the Authority in accordance with Section 3.02(a) of this Agreement.

Section 8.02. The following is specified as additional matter, within the meaning of Section 10.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association namely, that the AID Agreement has been duly authorized by, and executed and delivered on behalf of, the Borrower and constitutes a valid and binding obligation of the Borrower in accordance with its terms.

Section 8.03. The date June 22, 1973 is hereby specified for the purposes of Section 10.04 of the General Conditions.

Section 8.04. The obligations of the Borrower under Sections 4.01, 4.02, 4.03 and 5.02(a) of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on a date fifteen years after the date of this Agreement, whichever shall be the earlier.
ARTICLE IX

Representative of the Borrower; Addresses

Section 9.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 9.03 of the General Conditions.

Section 9.02. The following addresses are specified for the purposes of Section 9.01 of the General Conditions:

For the Borrower:

Minister of Finance  
P.O. Box 395  
Maseru, Lesotho  

Cable address:  
FINMIN  
Maseru

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.

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

KINGDOM OF LESOTHO

By /s/ M. T. Mashologu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Bernard R. Bell

Regional Vice President
Eastern 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 amounts of the Credit to each Category and the percentage of eligible expenditures so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in Dollar Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. On Farm Inputs, including seed, fertilizer, pesticides, cultivation services, dairy cattle, fencing and sheds, tractors, plows, cultivator/planters and draft animals</td>
<td>850,000</td>
<td>100% of foreign expenditures or 90% of total expenditures</td>
</tr>
<tr>
<td>II. Vehicles and Equipment</td>
<td>300,000</td>
<td>100% of foreign expenditures or 90% of total expenditures</td>
</tr>
<tr>
<td>III. Technical Assistance - emoluments and costs of international travel for Expatriate Staff</td>
<td>950,000</td>
<td>100% of total expenditures</td>
</tr>
<tr>
<td>IV. Civil Works (staff housing, buildings and roads)</td>
<td>1,000,000</td>
<td>90% of total expenditures</td>
</tr>
<tr>
<td>V. Emoluments for Local Staff, Project Operation and Maintenance</td>
<td>1,600,000</td>
<td>90% of total expenditures</td>
</tr>
<tr>
<td>VI. Aerial surveys and mapping</td>
<td>20,000</td>
<td>100% of foreign expenditures or 90% of total expenditures</td>
</tr>
<tr>
<td>VII. Unallocated</td>
<td>880,600</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5,600,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures for goods produced in, or services supplied from, the territories, and in the currency, of any country other than the Borrower; provided, however, that if the currency of the Borrower is also that of another country in the territories of which goods are produced or from the territories of which services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(b) the term "total expenditures" means the aggregate of foreign expenditures and of expenditures for goods produced in, or services supplied from, the territories of the Borrower.

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

(a) expenditures prior to the date of this Agreement, except that withdrawals may be made on account of payments made after January 1, 1973 in an aggregate amount not exceeding the equivalent of $100,000;

(b) payments for taxes imposed directly under the laws of the Borrower or laws in effect in its territories on goods or services, or on the importation, manufacture, procurement or supply thereof. To the extent that the amount represented by the percentage set forth in the third column of the table in paragraph 1 above in respect of any Category would exceed the amount payable net of all such taxes, such percentage shall be reduced to ensure that no proceeds of the Credit will be withdrawn on account of payments for such taxes;

(c) expenditures (other than expenditures for aerial surveys and mapping, and vehicles) for Part H of the Project.

4. Notwithstanding the allocation of an amount of the Credit set forth in the second column of the table in paragraph 1 above:

(a) if the estimate of the expenditures under any Category shall decrease, the amount of the Credit then allocated to such Category and no longer required therefor will be reallocated by the Association by increasing correspondingly the unallocated amount of the Credit;

(b) if the estimate of the expenditures under any Category shall increase, the percentage set forth in the third column of the table in paragraph 1 above
in respect of such expenditures shall be applied to the amount of such increase, and a corresponding amount will be allocated by the Association, at the request of the Borrower, to such Category from the unallocated amount of the Credit, subject, however, to the requirements for contingencies, as determined by the Association, in respect of any other expenditures; and

(c) if the Association shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in Section 2.03 of this Agreement, no expenditures for such item shall be financed out of the proceeds of the Credit and the Association may, without in any way restricting or limiting any other right, power or remedy of the Association under the Development Credit Agreement, by notice to the Borrower, cancel such amount of the Credit as in the Association's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Credit.

5. Notwithstanding the percentages set forth in the third column of the table in paragraph 1 above, if the estimate of total expenditures under any Category shall increase and no proceeds of the Credit are available for reallocation to such Category, the Association may, by notice to the Borrower, adjust the percentage then applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.
SCHEDULE 2

Description of the Project

The Project is a program of the Borrower for rural development in the Project Area, designed to increase productivity of agriculture and farmer income and to arrest soil erosion. The Project consists of the following Parts:

A. Credit Services

The provision of credit services to beneficiaries to enable them to obtain the input packages (including improved seeds, fertilizers, pesticides spraying and other farm inputs), tractors and machinery, draft animal, and dairy stock, and to enable selected farmers and farmer associations to participate in the integrated farming phase of the Project (Part F of the Project).

B. Extension Services

The provision of intensive agricultural extension services to beneficiaries including advisory services on proper selection and use of seed and fertilizer, cultivation techniques, crop timing, and proper control and production methods for livestock.

C. Marketing Services

The provision of marketing facilities and services to beneficiaries including the construction and operation of markets and stores to serve as the focal points for distribution of input packages provided under Part A of the Project, for the purchase of farm output, for the provision and repayment of credit, and for the provision of extension services under Part B of the Project.

D. Training

(1) The provision of additional staff, buildings and equipment for the Matelas Farmer Training Center, to serve the training and demonstration needs of credit, extension and marketing services under Parts A, B and C of the Project, respectively; to train farmers in crop and livestock production and simple budgeting; to train managers of farmer-associations; and to conduct seminars and for related training purposes; and

(2) The provision of additional staff and equipment for the existing tractor school at Maseru for training of tractor operators.
E. Research

The provision of staff, vehicles and equipment, farm buildings, staff housing, simple laboratories and related services and facilities for agricultural research designed to improve rain-fed crops and to support the integrated farming phase of the Project (Part F of the Project) by developing improved cropping and grazing patterns.

F. Integrated Farming

The development and implementation of a program of integrated crop and livestock farming in an area of about 5,000 acres within the Project Area, including: mapping and measuring of farm holdings; land registration; more intensive use of farm inputs; fencing and sheds for improved livestock production; controlled grazing of livestock; the implementation of a cropping plan that includes fodder, grassland and crop rotations.

G. Roads

The construction of about 90 km of all-weather gravelled main roads, and about 100 km of dry-weather ungravelled subsidiary access roads and the provision of maintenance equipment for such roads.

H. Soil Conservation

The development and implementation of a comprehensive soil conservation program in the Project Area, including without limitation: the construction of farmer access roads, with associated protective fencing, grass and tree planting; grass-covered diversion terraces; and drainage structures; the construction or reconstruction of, or repair to, existing or new terraces; the construction of multi-purpose earth dams on natural waterways; the improvement of natural or constructed waterways; the construction of fencing to protect critical installations (e.g., stabilized waterways and drop structures); the planting of trees for erosion control; aerial photography and mapping, soil analysis, and the preparation of coordinated agricultural and soil conservation plans for each of the main marketing areas included under Part C of the Project; coordination with the integrated farming phase of the Project (Part F of the Project).

The Project is expected to be completed by June 30, 1979.
SCHEDULE 3

Procurement

1. Subject to the provisions set forth in Paragraph 3 of this Schedule vehicles, tractors, farm equipment and fertilizer included under Categories I and II of the allocation of the proceeds of the Credit set out in paragraph 1 of Schedule 1 to this Agreement, shall be procured on the basis of international competition under procedures consistent with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in April 1972, as revised in October 1972, and in accordance with the provisions hereinafter set forth.

2. With respect to any contract for the purchase of goods referred to in Paragraph 1 of this Schedule estimated to cost the equivalent of $50,000 or more:

(a) If bidders are required to prequalify, the Borrower shall, before qualification is invited, inform the Association in detail of the procedure to be followed and shall introduce such modifications in said procedure as the Association shall reasonably request. The list of prequalified bidders, together with a statement of their qualifications and of the reasons for the exclusion of any applicant for prequalification, shall be furnished by the Borrower to the Association for its comments before the applicants are notified and the Borrower shall make such additions to or deletions from the said list as the Association shall reasonably request.

(b) Before bids are invited, the Borrower shall furnish to the Association, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedure as the Association shall reasonably request. Any further modification to the bidding documents shall require the Association's concurrence before it is issued to the prospective bidders.

(c) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Association of the name of the bidder to whom it intends to award the contract and shall furnish to the Association, in sufficient time for its review, a detailed report on the evaluation and comparison of the bids received, together with the reasons for the intended award. The Association shall, if it determines that the intended award would be inconsistent with the procedures set forth or referred to in Section 2.03 of this Agreement, promptly inform the Borrower and state the reasons for such determination.
(d) The terms and conditions of the contract shall not, without the Association's concurrence, materially differ from those on which bids were asked.

(e) Two conformed copies of the contract shall be furnished to the Association promptly after its execution and prior to the delivery to the Association of the first application for withdrawal of funds from the Credit Account in respect of any such contract.

3. Any contract for the purchase of goods referred to in Paragraph 1 of this Schedule estimated to cost below the equivalent of $8,000 is exempted from international competitive bidding provided that the aggregate of all such contracts shall not exceed $60,000 equivalent.

4. With respect to any contract other than those referred to in Paragraph 2 of this Schedule, the Borrower shall furnish to the Association, promptly after its execution and prior to the delivery to the Association of the first application for withdrawal of funds from the Credit Account in respect of any such contract, two conformed copies of such contract, together with the analysis of bids, recommendations for award and such other information as the Association shall reasonably request. The Association shall, if it determines that the award of the contract is not consistent with the procedures set forth or referred to in Section 2.03 of this Agreement, promptly inform the Borrower and state the reasons for such determination.

5. For the purpose of evaluation and comparison of bids, customs duties and other import taxes on imported goods, and sales and similar taxes on locally produced goods, shall be excluded, except to the extent hereinafter provided, and bidders shall be required to state in their bid the c.i.f. Maseru price for imported goods, or the ex-factory price for locally produced goods. The cost to the Borrower of inland freight and other expenditures incidental to the delivery of goods to the place of their use or installation shall be taken into account in the evaluation of bids in accordance with paragraph 4.7 of the Guidelines for Procurement.

6. (a) Orders for tractors shall be bulked in each year, and beneficiaries shall be enabled to purchase tractors directly from the successful bidder.

   (b) In evaluating bids for the supply of tractors, the Borrower shall consider, inter alia, the availability of servicing in the Project Area, and shall obtain from the successful bidder, an undertaking to provide adequate servicing in Maseru or the Project Area.

7. Contracts for the construction of roads (other than those to be carried out by the staff of the Borrower pursuant to Section 3.04(a) of this Agreement), for
other civil works and for the purchase of goods not subject to international competitive bidding shall be let in accordance with the Borrower's tender procedures provided that the Project Manager shall be authorized to procure goods or services estimated to cost the equivalent of not more than $6,000 by obtaining price quotations.
SCHEDULE 4

Policies and Procedures for Credit Operation

1. **General** - Credit shall be extended normally in kind to beneficiaries for three categories of inputs: (i) seasonal inputs; (ii) tractors and equipment, and draft animals; and (iii) dairy cows and sheds.

2. **Channelling of Funds** - Credit shall be provided by the Authority through the Project Credit Account referred to in Section 3.07 of this Agreement. Funds from beneficiaries, contributions and debt service shall be credited to such account.

3. **Supervision of Credit Operations** - Credit operations shall be under the direction of the Chief Credit and Marketing Officer and assisted by the Deputy Credit Officer, Credit Assistant and accounting staff under the general direction and control of the Project Manager.

4. **Eligibility of Beneficiaries**

   (a) The suitability for candidates to receive loans shall be assessed by the Chief Credit and Marketing Officer and his staff;

   (b) Credits to individual farmers may be made through approved farmers' associations which would assist in the processing and collection of loans and which would have sanctions for the repayment of such loans satisfactory to the Authority. In such cases, the farmers' association shall assess each individual suitability before processing and approval by the Authority. No Credit shall be made to any member of a farmers' association if any member of such association is in default in debt repayments to the Authority; except where arrangements satisfactory to the Project Manager shall have been made to remedy the default and except when the credit is based on the member's individual creditworthiness independently of his membership in such association;

   (c) Credits may also be made to registered cooperative societies and approved farmers' associations capable of being used as individual legal entities for their own use or for on-lending to their members.

5. **General Conditions for Granting Credits** - Before granting a credit the Authority must be satisfied that:
(a) the recipient is a farmer, (preferably member of a farmers' association), an eligible farmers' association, a registered cooperative or a small agricultural contractor;

(b) the recipient has requested credit from the Authority under the Project;

(c) the recipient has a farm or contracting business established in the Project Area, and resides there or has a competent member of his extended family resident near the lands to be farmed;

(d) the recipient is not in default on debt repayments to the Project or, if in default, that he has made arrangements to remedy the default satisfactory to the Authority;

(e) if the recipient is a farmer, he has the right to farm sufficient lands to utilize the loan funds;

(f) small agricultural contractors (1) have completed an approved training course at the Maseru tractor training school or have equivalent approved experience or employ a tractor driver trained under the Project; (2) undertake to buy approved machinery; (3) will regularly maintain such machinery; (4) will give priority services to farmers in the Project Area; and (5) work for cash or Project credit only; and

(g) recipients of livestock credits are part of the integrated farming program under the Project or control individually sufficient land to maintain the livestock and provide their keep.

6. **Credit Terms** - Terms of the credit to be provided under the Project shall be as follows:

(a) **Annual Credits for Seasonal Inputs** - The beneficiary shall pay in advance 10% of the credit plus 10% of the credit as a bad debt reserve and 10% as a crop failure reserve. A bad debt reserve shall be established in the name of each individual beneficiary and shall be used to pay outstanding credit in the event of default by such beneficiary. The reserve shall be refunded to the beneficiary at the end of each year after full repayment of the beneficiary's credit. The crop failure reserve shall be credited each year to a joint savings account (in the name of the Authority and the individual beneficiary) which will earn interest for the beneficiary until the amount in the reserve reaches 100% of the beneficiary's previous year's credit from the
 Authority. Thereafter, the excess over 100% may be withdrawn with the Authority's approval. The crop failure reserve may be applied towards the indebtedness of a beneficiary in any year in which there is crop failure.

(b) *Medium Term Credits* - The beneficiary shall pay in advance 25% of costs for tractors, equipment, draft animals and cow sheds, and 50% of costs for dairy cows.

7. *Interest* - Annual credits to individual farmers shall be charged interest at 1% per month on outstanding balances. Interest on medium term credits shall be 9% per annum on outstanding balances. Credits to farmers' associations or cooperatives made in accordance with Paragraph 4 of this schedule may be made at lower interest rates to compensate them for their work in processing of such credits.

8. *Repayment* - The following policies and procedures shall be followed in connection with repayment of credits granted by the Authority:

(a) Annual credits shall be repaid immediately after harvest;

(b) Medium term credits for tractors, equipment, draft animals, cow sheds and dairy cows shall be repaid in regular installments (at least annually) over a period of five years from the date of such credit;