

CONFORMED COPY

CREDIT NUMBER 1948 CE

(Third Industrial Development Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 19, 1988

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 19, 1988, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower has issued a Statement of Industrial Strategy dated March 1987 (the Statement), describing objectives and policies designed for the development and expansion of the industrial sector, and declaring the Borrower's commitment to the implementation of said policies;

(B) the Borrower has requested the Association to assist in the financing of measures to be undertaken pursuant to, or in furtherance of, the provisions of the Statement through the Project described in Schedule 2 to this Agreement by extending the Credit as hereinafter provided;

(C) from the Asian Development Bank (ADB), the Borrower intends to contract a loan (the ADB Loan) in an amount equivalent to SDR 28,962,000 to assist in financing the project on terms and

conditions set forth in an agreement (the ADB Agreement) to be entered into between the Borrower and ADB; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (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) "Participating Credit Institution" means any credit institution established or operating under the laws of the Borrower, which has entered into a subsidiary loan agreement with the Borrower pursuant to the provisions of Part II(4) of Schedule 3 to this Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and a Participating Credit Institution pursuant to the provisions of Part II(4) of Schedule 3 to this Agreement, as the same may be amended from time to time, and such terms includes all schedules to the Subsidiary Loan Agreement;

(c) "Sub-loan" means a loan made or proposed to be made by a Participating Credit Institution out of the proceeds of the Credit to an Investment Enterprise for an Investment Project, and "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of Part II(1) (b) of Schedule 3 to this Agreement;

(d) "Investment Enterprise" means an enterprise, owned privately, owned by the state jointly with private shareholders, or owned by the state and operating under private sector management contract, to which a Participating Credit Institution proposes to make or has made a Sub-loan;

(e) "Investment Project" means a specific development project in such sectors as may be agreed upon between the Association and the Borrower, to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(f) "AWPR" means the Average Weighted Prime Rate, an index of interest rate charged by the commercial banks to their prime customers; such index is compiled and published on a weekly basis by the Central Bank of Sri Lanka. For the purposes of this Agreement, the initial AWPR to be applied will be the AWPR in force on the Effective Date, and the Borrower and the Association may mutually agree to substitute another index or indicator;

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

(h) "Rs" means Rupees, the currency of the Borrower;

(i) "BMR" means balancing, modernizing and rehabilitation activities related to an Investment Project; and

(j) "Project Preparation Advance" means the project

preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated April 16, 1986 and June 18, 1986 between the Borrower and the Association.

## 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 thirty-one million seven hundred thousand Special Drawing Rights (SDR 31,700,000).

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) amount paid (or, if the Association shall so agree, amounts to be paid) by a Participating Credit Institution on account of withdrawals made by an Investment Enterprise under a Sub-loan to meet the reasonable cost of goods and works 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 and services required for Parts B and C 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 a special account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 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, 1995 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 a 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 as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988 shall be applied as of July 1, 1988.

(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 March 15 and September 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 semiannual installments payable on each March 15 and September 15 commencing September 15, 1998 and ending March 15, 2028. Each installment to and including the installment payable on March 15, 2008 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project or cause the Project to be carried out with due diligence and efficiency and in conformity with appropriate administrative, financial and industrial 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 5 to this Agreement.

Section 3.03. (a) The Borrower undertakes that, unless the Association shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 3 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Association and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. The Borrower shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

- (i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound 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 four months after the end of each such year: (A) certified copies of said 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
- (iii) furnish to the Association such other information concerning the said records, accounts and financial statements and the audit thereof as the Association shall from time to time reasonably request.

(b) 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, in accordance with Section 4.01 of this Agreement, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (a) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the

related withdrawals.

#### ARTICLE V

##### Remedies of the Association

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

(a) A situation has arisen which shall make it improbable that the objectives and policies included in the Statement, or a significant part thereof, will be implemented.

(b) A change shall have been made in any Subsidiary Loan Agreement without the Association's consent.

(c) The ADB Agreement shall have failed to become effective by December 31, 1988, 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 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.

(d) (i) Subject to subparagraph (ii) of this paragraph:

(A) The right of the Borrower to withdraw the proceeds of the ADB Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the ADB Agreement, or

(B) The ADB Loan shall have become due and payable prior to the agreed maturity thereof.

(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 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (c) 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;

(b) any events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur; and

(c) any events specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (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) administrative and legal measures satisfactory to the

Association have been taken to improve the recovery of debts; and

(b) Subsidiary Loan Agreements have been entered into by the Borrower with at least two Participating Credit Institutions.

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, namely, that the Subsidiary Loan Agreements have been duly authorized or ratified by, and are legally binding upon the Borrower and the Participating Credit Institutions referred to in Section 6.01 hereinabove, in accordance with their respective 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.

Section 6.04. The obligations of the Borrower under Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Secretary, Ministry of Finance and Planning 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 and Planning  
Democratic Socialist Republic of  
Sri Lanka  
Colombo, Sri Lanka

Cable address:

SECMINFIN  
Colombo

Telex:

FINMIN 21409  
FORAID 21232

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:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

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.

DEMOCRATIC SOCIALIST REPUBLIC OF  
SRI LANKA

By /s/ Susantha de Alwis  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Attila Karaosmanoglu  
Regional Vice President  
Asia

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) Sub-loans under Part A of the Project for goods and works	26,050,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items pro- cured locally
(2) Expenditures under Parts B and C of the Project:	5,100,000	
(a) Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items pro- cured locally
(b) Consultants' services and training		100%
(3) Refunding of Project Pre- paration Advance	550,000	Amount due pur- suant to Sec- tion 2.02 (c) of this Agreement

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TOTAL

31,700,000

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:

(a) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 3 to this Agreement; and

(b) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,900,000, may be made on account of payments made for expenditures before that date but after January 1, 1988.

#### SCHEDULE 2

##### Description of the Project

The objective of the Project is to assist the Borrower's program of industrial development through the provision of credit, and the improvement of support systems.

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: Industrial Finance

Financing by Participating Credit Institutions of Investment Projects through Sub-loans to Investment Enterprises.

##### Part B: Support Systems

Institutional strengthening and development of staff capabilities in:

- (1) export administration;
- (2) tariff reform implementation;
- (3) industrial technology development;
- (4) capital market development; and
- (5) operations of Capital Development and Investment Corporation, National Development Bank of Sri Lanka, and Development Finance Corporation of Ceylon.

##### Part C: Telecommunications

Preparatory activities for the commercialization and future restructuring of the telecommunication system.

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The Project is expected to be completed by June 30, 1994.

SCHEDULE 3

Terms and Conditions of  
and Procedures for Sub-loans

I. Terms and Conditions

A. Terms for onlending by the Borrower to  
Participating Credit Institutions

1. Interest rate : AWPR less a spread of 4% per annum
2. Amortization period : 18 years, inclusive of 3 years of grace
3. Foreign exchange risk: to be borne by the Borrower

B. Terms of Sub-loans

1. Interest rate : to be determined by the respective Participating Credit Institution
2. Amortization period : maximum of 15 years, inclusive of 3 years of grace
3. Maximum Sub-loan size: Rs 90,000,000 (except as the Association may otherwise agree)
4. Sub-loan utilization
  - (a) by Investment Enterprises owned privately : for new investment, or BMR
  - (b) by Investment Enterprises not owned privately : for BMR
5. Proceeds of the Credit shall not be utilized for sub-loans eligible under small and medium industries financing schemes.

C. Adjustment of Terms

The mechanisms for establishing the interest rate and spread for paragraph A.1 above, shall be reviewed by each January 1 and July 1 and, if necessary, adjusted, based on procedures agreed upon between the Borrower and the Association.

The actual rate charged to the Participating Credit Institutions by the Borrower shall be amended each January 1 and July 1. The initial interest rates shall be the AWPR in force on the Effective Date less the spread indicated in paragraph A.1 above. Subsequently the interest rate shall be the average AWPR prevailing over the previous six month period less the spread indicated in paragraph A.1 above, as adjusted in the manner referred to above. In the event a Participating Credit Institution charges a variable interest rate on Sub-loans, the Borrower shall also charge such a Participating Credit Institution a relending rate for a corresponding portion of the Credit on a variable interest rate basis to be agreed upon by the Borrower and such Participating Credit Institution.

## II. Procedures

(1) No expenditures for goods or works required for an Investment Project shall be eligible for financing out of the proceeds of the Credit unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Association and such expenditures shall have been made not earlier than 120 days prior to the date on which the Association shall have received the application and information required under paragraph (2) (a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Association has authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than 120 days prior to the date on which the Association shall have received the request and information required under Part II paragraph (2) (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be a Sub-loan as determined by the Association for each Participating Credit Institution in terms of the amount to be financed out of the proceeds of the Credit for an Investment Project.

(2) (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Association for approval, the Borrower shall furnish or cause the Participating Credit Institutions to furnish, to the Association an application, in form satisfactory to the Association, together with: (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) such other information as the Association shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Credit Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Association on or before June 30, 1992.

(3) Sub-loans and Investments shall be made on terms whereby the Borrower shall obtain or cause the Participating Credit Institutions to obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Association and the Borrower, including, the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and works to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule 5 to this Agreement, and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Association or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Credit upon failure by such Investment Enterprise to perform its obligations under its contract with the Borrower or with the Participating Credit Institutions.

(4) The Borrower shall enter into a Subsidiary Loan Agreement with each Participating Credit Institution providing for its participation in the Project, on terms and conditions satisfactory to the Association including those outlined in this Schedule.

(5) Each Participating Credit Institution shall comply with eligibility criteria satisfactory to the Association.

(6) (a) After commencing to participate in the Project, each Participating Credit Institution shall continue to satisfy the performance entry criteria which shall be monitored semiannually and modified if appropriate by mutual agreement between the Borrower and the Association. If any Participating Credit Institution fails to satisfy the above specified criteria, the Association reserves the right to suspend Sub-loan authorizations under the Project until the Participating Credit Institution has taken specific steps to address its problems in a manner satisfactory to the Association.

(b) To ensure an even utilization of the Credit and ADB Loan, the Borrower shall apply for commitments from the Association and ADB, to the extent practicable, on a basis proportionate to the relative contribution of the Association and ADB to the financing of Part A of the Project.

(7) The Borrower shall ensure that each Subsidiary Loan Agreement include provisions for the relevant Participating Credit Institution:

(a) to retain responsibilities and staff satisfactory to the Association to appraise Investment Projects and extend Sub-loans under Part A of the Project;

(b) to apply procedures and criteria satisfactory to the Association in the appraisals of Investment Projects;

(c) to complete environmental impact assessments satisfactory to the Association for Sub-loans of \$500,000 equivalent or more; and

(d) to include calculations of the domestic resource cost ratio, and internal economic and financial rates of return for each Sub-loan of \$250,000 equivalent or more, and for each Investment Project with a nominal tariff protection level of 50% or more.

## Implementation Program

1. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the objectives and policies included in the Statement and the actions specified hereunder in Part 2 of this Schedule.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the objectives and policies included in the Statement, in such detail as the Association shall reasonably request.

2. The Borrower shall carry out, in accordance with a program and timetable satisfactory to the Association:

(a) export development measures;

(b) tariff reforms;

(c) industrial technology development;

(d) capital market development;

(e) strengthening of National Development Bank of Sri Lanka and Development Finance Corporation of Sri Lanka operations; and

(f) debt recovery improvements.

3. No commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Credit after the total amount of such commitments shall have reached the equivalent of SDR 15,000,000, unless the Association shall be satisfied, after an exchange of views as described in Part 1 of this Schedule based on evidence satisfactory to the Association: (a) with the progress achieved by the Borrower in the implementation of objectives and policies included in the Statement; and (b) that the actions described in Part 2 of this Schedule have been taken.

4. If, after the exchange of views described in Part 3 of this Schedule, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

## SCHEDULE 5

### Procurement and Consultants' Services

#### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

Except as provided in Part D 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: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Sri Lanka may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Contracts for goods, and for works, estimated to cost less than equivalent of \$1,000,000 each may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Contracts for goods, and for works, estimated to cost less than the equivalent of \$500,000 each may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part E: 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 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 6 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ or cause to be employed 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 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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 SDR 1,590,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

(i) 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

(ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the

amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any 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 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Credit Account.

