

CONFORMED COPY

LOAN NUMBER 3736 MAS

Loan Agreement

(Technical Assistance to Enhance Competitiveness Project)

between

REPUBLIC OF MAURITIUS

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 1, 1994

LOAN NUMBER 3736 MAS

LOAN AGREEMENT

AGREEMENT, dated July 1, 1994, between REPUBLIC OF MAURITIUS (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan 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 Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "MOF" means the Borrower's Ministry of Finance;
- (b) "MIIT" means the Borrower's Ministry of Industry and Industrial Technology;
- (c) "MSB" means the Mauritius Standards Bureau established pursuant to the Mauritius Standards Bureau Act, No. 12 of 1993;
- (d) "Standards Council" means the council established under the Mauritius Standards Bureau Act, No. 12 of 1993 to administer MSB;
- (e) "MSTQ" means metrology, standards, testing, quality;
- (f) "MSTQ Strategy" means the strategy adopted by the Standards Council on April 14, 1994, that defines the relative roles of the public and private sectors in the delivery of MSTQ infra-structure and services and provides an enabling regulatory framework for the delivery of these services;
- (g) "ISO 9000" means the series of international quality management standards issued by the International Organization for Standardization;
- (h) "Electronic Trade Facilitation System or ETFS" means the network to process trade documentation to be implemented under the Project;
- (i) "CSO" means the Borrower's Central Statistical Office;
- (j) "TDS" means the Technology Diffusion Scheme referred to in Part A of Schedule 2 to this Agreement;
- (k) "Manual of Policies and Procedures" means the Manual of Policies and Operating Procedures governing the operation of the TDS;
- (l) "TDS Management Contractor" means the consultants appointed by the Borrower to manage the TDS;
- (m) "Eligible Firm" means a firm in any productive sector with at least 51% of its equity privately owned;
- (n) "Monitorable Indicators" means the monitorable indicators for measuring project implementation agreed between the Borrower and the Bank; and
- (o) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of seven million seven hundred thousand dollars (\$7,700,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this

Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of Parts A, B, D.1 and D.3 the Project, open and maintain in dollars, a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1999, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period

commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

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 Parts A, B, D.1 and D.3 of the Project through MIIT and Parts C and D.2 of the Project through MOF, all with due diligence and efficiency and in conformity with appropriate administrative, financial and technology 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 Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall, for purposes of Parts A, B, D.1 and D.3 of the Project: (a) open and maintain until completion of the Project, an account in the name of MIIT; (b) deposit into said account, on a quarterly basis, such funds as are required by MIIT for the implementation of said Parts of the Project; and (c) ensure that at all times there are adequate funds in said account to meet expenditures incurred for said Parts of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank'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 Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) that the MSTQ Strategy has been amended in such a manner as to adversely affect the implementation of the Project; and
- (b) the Manual of Policies and Operating Procedures has been amended or waived so as to materially and adversely affect the implementation of the TDS Scheme.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01 (a) or (b) of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

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

- (a) the Borrower has established the TDS Supervision Committee referred to in paragraph 6 of Schedule 5 to this Agreement;
- (b) the Borrower has appointed the TDS Management Contractor referred to in paragraph 7 of Schedule 5 to this Agreement; and
- (c) the Borrower has selected the quality training provider and appointed an appropriate local training organization to undertake the National Quality System training program referred in paragraph 11 of Schedule 5 to this Agreement.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower at the time responsible for

Finance 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
Government House
Port Louis
Mauritius

Cable address:

MINFIN
Port Louis

Telex:

4249 EXTERN IW

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Washington, D.C. INTBAFRAD
82987 (FTCC)

Telex:

248423 (RCA)

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.

REPUBLIC OF MAURITIUS

By /s/ A. P. Neewoor

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Francisco Aguirre-Sacasa

Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
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Parts A, B, D.1 and
D.3 of the Project

(1) Consultants'

services and training:

(a) for Part A of the Project:		
(i) TDS Management Contract	470,000	100%
(ii) Matching Grants	2,680,000	100% of eligible expenditures
(b) for Part B.1 of the Project	710,000	100%
(c) for Parts B.2-5, D.1 and D.3 of the Project	950,000	100%
(2) Equipment and supplies	1,840,000	100% of foreign expenditures
Parts C and D.2 of the Project		
(3) Consultants' services and training	780,000	100%
(4) Equipment and supplies	30,000	100% of foreign expenditures
(5) Unallocated	240,000	
TOTAL	<u>7,700,000</u>	=====

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 "Eligible Expenditures" means with respect to Category (1) (a) (ii) expenditures of up to 50% for the cost of technology services.

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

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

(b) payments for expenditures under Category (1) (b) until the Borrower has completed: (i) the training program on quality documentation and internal auditing; (ii) the tender process for lead assessor courses for MSB personnel; (iii) the training of MSB assessors to enable them to qualify for registration; and (iv) the terms of reference for the quality training curriculum.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods and services not exceeding \$50,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to help enhance export competitiveness and thereby prospects for sustainable rapid growth by facilitating private

sector access to know-how for improved productivity, quality, design and response times, as well as diversification of export production.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Diffusion of Good Technology Practices

Promotion of the diffusion of good technology practices through a Technology Diffusion Scheme, which shall provide 50/50 matching grants towards the cost of programs to improve the private sector's access to productivity, quality and design services, and to information on new technologies.

Part B: Strengthening MSTQ Infrastructure

1. Establishment of a National Quality System through, inter alia, (a) the development and implementation of a general and comprehensive quality training program for senior trainers, (b) the provision of training programs on quality documentation and internal auditing for industry personnel and of lead assessor courses for MSB and industry personnel, (c) provision of specialized training to MSB staff in ISO 9000 assessment and certification, and (d) the launching and execution of a general quality outreach and promotion campaign.

2. Management and institutional upgrading through, inter alia, a twinning arrangement with a standards body to assist MSB to: (a) plan strategically, (b) market its services effectively, and (c) manage the transition from developing national standards to adopting international standards.

3. Strengthening MSB's testing, metrology and information services through, (a) the provision of training and acquisition of equipment for testing; (b) provision of training and acquisition of equipment for metrology with a view, inter alia, to establishing an effective National Calibration System; (c) development of a small test equipment/instrumentation and repair center; and (d) acquisition and maintenance of a bibliographic database on standards.

4. Enhancement of the image and reputation of Mauritian MSTQ Institutions, through advice to the Standards Council.

5. Development of independent laboratory accreditation under the MSTQ National Accreditation Council through: (a) advise for the development of such council; and (b) training of assessors for laboratory accreditation.

Part C: Trade Facilitation

Implementation of the Electronic Trade Facilitation System

Assisting the National Computer Board, and/or any other agency designated by MOF, in playing a catalytic role to facilitate adoption of the Electronic Trade Facilitation System.

Part D: Economic and Regulatory Reforms

1. Carrying out a review and restructuring of industrial investment authorization processes, through the clearer definition of investment authorization criteria and streamlining of core investment authorization procedures.

2. Carrying out a review of the actuarial basis and funding requirements for retirement savings systems.

3. Development of productivity and competitiveness indicators and improving the monitoring of industrial development, through assistance to MIIT and CSO and strengthening MIIT's industrial monitoring and policy formulation capacity.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 1 and August 1 beginning February 1, 2000 through February 1, 2009	385,000
and on August 1, 2009	385,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88

More than 15 years before
maturity

1.00

SCHEDULE 4
Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods 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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other international recognized standards forms agreed with the Bank.

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$150,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Mauritius 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: Other Procurement Procedures

1. Items or groups of items for goods estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$173,000, 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 Bank.

2. Items or groups of items for specialized equipment required for the test equipment/instrumentation maintenance and repair center under Part B.3 of the Project, up to an aggregate amount equivalent to \$150,000, may be procured under contracts awarded through limited international bidding procedures and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 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 Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank 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, said 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 Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made 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 in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

SCHEDULE 5

Implementation Program

1. (a) MIIT shall have overall responsibility for the implementation of Parts A and B of the Project, as well as Parts D.1 and 3.

(b) MOF shall be responsible for the implementation of Parts C and D.2 of the Project.

(c) Both MIIT and MOF shall nominate qualified and experienced Project Coordinators, in consultation with the Bank.

2. The Borrower and the Bank shall jointly organize, no later than three months after the Effectiveness Date, a Project Launch Workshop to familiarize key officials of all agencies participating in the Project, on important aspects of the Project, including procurement and disbursement procedures.

3. The Borrower shall by March 31 in each year carry out with the Bank, a Project implementation review. Such reviews shall monitor overall Project execution with regard to the Monitorable Indicators, update the Project, timetable and identify implementation issues and develop appropriate solutions.

4. (a) The Borrower shall not later than September 30, 1996, carry out jointly with the Bank a mid-term review of the Project. Such review shall, inter alia, focus on (i) overall project performance against key monitorable performance indicators, (ii) an assessment of Project sustainability, (iii) an evaluation of the performance of consultants under the Project, (iv) a review of the organizational changes recommended for investment authorization, (v) an evaluation of progress on actions with regard to the retirement savings systems, (vi) an evaluation of the progress of the TDS and the strengthening of the MSTQ infrastructure, and (vii) an evaluation of progress made on the Electronic Trade Facilitation System.

(b) The Borrower shall, three months prior to such review, prepare and furnish to the Bank the reports needed to undertake said review.

(c) Promptly after the completion of the mid-term review referred to above, the Borrower shall take all necessary actions to implement the recommendations emanating from such review.

5. The Borrower shall carry out and monitor the effective implementation of the Project in accordance with the Monitorable Indicators.

Part A of the Project: TDS

6. (a) The Borrower shall establish and maintain until completion of the Project, a TDS Supervision Committee which shall, inter alia, approve grant applications above \$50,000 equivalent, and facilitate the various approvals, including work and residence permits required for firms to utilize external expertise.

(b) The TDS Supervision Committee shall comprise representatives from the Prime Minister's Office, MOF, MIIT, JEC, Mauritius Chamber of Commerce and Industry and Mauritius Export Processing Zone Association. The TDS Supervision Committee shall be chaired by the representative from MIIT.

7. (a) The Borrower shall, (i) for purposes of the implementation of the TDS, open and maintain, until completion of the Project, an account, and (ii) deposit into such account such funds as are required for the implementation of the TDS.

(b) The Borrower shall appoint and maintain until completion of the TDS, the TDS Management Contractor to undertake the day-to-day administration of the TDS, under terms and conditions satisfactory to the Bank.

8. The TDS shall fund programs involving training or acquisition of expertise in the following areas: (i) improve productivity, (ii) enhance product quality, (iii) strengthening design capacities, (iv) improve response times to clients orders, and (v) introduce new technologies and techniques.

9. The Borrower shall ensure that the TDS is carried out in accordance with the Manual of Policies and Operating Procedures, approved by the Bank, which shall, inter alia provide that:

(a) assistance shall be in the form of 50/50 cost sharing grants to Eligible Firms;

(b) except as the Borrower and the Bank shall otherwise agree, the maximum grant support to an Eligible Firm shall be limited to \$100,000;

(c) the following activities shall be eligible:

- (i) labor or capital productivity, or the productive use of raw materials, so as to reduce the cost per unit of output;
- (ii) product quality, uniformity, and reliability;
- (iii) product design, including aspects such as grading, counter-sampling, packaging design, and modifications to buyers' designs;
- (iv) improved response times to client orders and order amendments; and
- (v) the introduction and adaption of new technologies, in order to diversify or extend a firm's range of saleable products/services;

(d) eligible expenditures shall include service fees, plus travel and incidental expenses, incurred wholly and exclusively on a eligible activity.

10. TDS Grants shall be made on terms whereby the TDS Management Contractor shall obtain, by written contract with the Eligible Firm, rights adequate to protect the interests of the Borrower and the Bank, including to the extent appropriate, the right to:

(a) require the Eligible Firm to carry out the services 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 services to be financed out of the proceeds of the Loan be secured at a reasonable cost, account being taken of the time of delivery, efficiency, their quality and the competence of the parties rendering them; and (ii) such services shall be used exclusively in carrying out the purposes of the Grant;

(c) require that the first five contracts be furnished to the Bank prior to their award, and the remaining contracts to the Bank after their award.

(d) require for each eligible activity that the Eligible Firm define a "deliverable" to enable verification of the activities;

(e) obtain all such information as the Borrower and the Bank shall reasonably request relating to the services financed by the Grant; and

(f) suspend or terminate the right of the Eligible Firm to use the proceeds of the Loan upon failure by such Eligible Firm to perform its obligations under its agreement with the TDS Management Contractor.

Part B.1 of the Project

11. MSB shall oversee and coordinate the National Quality System training program. MSB staff shall provide specialized training in such areas as metrology and calibration. In order to assist MSB, the Borrower shall, in consultation with the Bank, appoint a quality training provider and an appropriate local training organization to carry out the program.

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 Parts A, B, D.1 and D.3 of the Project and to be financed out of the proceeds of the Loan 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 amounts equivalent to \$500,000 to be withdrawn from the Loan 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 Bank 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 Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank from the Loan 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 Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan 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 Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Parts A, B, D.1 and D.3 of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank 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 Bank 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank 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 Bank, refund to the Bank such outstanding amount.

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

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

