

CONFORMED COPY

CREDIT NUMBER 2221 MAI

(Financial Sector and Enterprise Development Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 24, 1991

CREDIT NUMBER 2221 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 24, 1991, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) part of the Project will be carried out by Reserve Bank of Malawi (RBM) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to RBM part of the proceeds of the Credit as provided in this Agreement; 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 and in the Project Agreement of even date herewith between the Association and RBM;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth in Schedule 6 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

(a) "RBM" means the Reserve Bank of Malawi, the Borrower's Central Bank;

(b) "INDEBANK" means Investment and Development Bank of Malawi Limited;

(c) "MDC" means Malawi Development Corporation;

(d) "Investment" means an investment, other than a Sub-loan or Lease Agreement, made or proposed to be made by a PFI out of the proceeds of the Credit in an Investment Enterprise for an Investment Project;

(e) "Investment Enterprise" means an enterprise with which a PFI has signed a Lease Agreement, to which a PFI proposes to make or has made a Sub-loan or in which it proposes to make or has made an Investment;

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

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

(h) "PFI" or "Participating Financial Intermediary" means any one of the following: INDEBANK, the Commercial Bank of Malawi Limited, the National Bank of Malawi, the Leasing and Finance Company of Malawi Limited, and MDC or such other institution(s) as may be added from time-to-time by RBM on the basis of eligibility criteria satisfactory to the Association;

(i) "PFI Agreement" means each of the loan agreements to be entered into by RBM and each of the PFI's pursuant to Section 3.01(c) of this Agreement, whereby RBM will provide said PFI with funds for Sub-loans Lease Financing and Investments;

(j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated April 25, 1990, May 22, 1990, October 23, 1990 and February 11, 1991 between the Borrower and the Association;

(k) "Special Account" means any of the accounts referred to in Section 2.02 (b), (c) and (d) of this Agreement;

(l) "Statement of Policy" means the Borrower's Investment Policy Statement on, inter alia, taxation, export, exchange control, investment protection, industrial land and investment adopted on January 12, 1991;

(m) "Sub-loan" means a loan made or proposed to be made by a PFI out of the proceeds of the Credit to an Investment Enterprise for an Investment Project;

(n) "Lease Financing" or "Lease Agreement" means an agreement entered into by a PFI and an Investment Enterprise whereby the PFI leases to the Investment Enterprise an Investment Project

financed from the proceeds of the Credit, against the payment of rent, for periods which, unless otherwise agreed by the Association, shall not exceed twelve years;

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

(p) "RBM Act" means the Reserve Bank of Malawi Act (Act. No. 8 of 1989);

(q) "Reference Rate" means the rate determined by RBM from time to time, for on-lending by RBM to PFIs reflecting the prevailing average cost of term borrowings in the financial system; and

(r) "MTIT" means the Borrower's Ministry of Trade, Industry and Tourism.

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 twenty-two million three hundred thousand Special Drawing Rights (SDR 22,300,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) by RBM on account of withdrawals made by an Investment Enterprise under a Sub-Loan or Investment to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part C of the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of Category (1)(a) of the table in paragraph 1 of Schedule 1 to this Agreement, open and maintain in dollars a special deposit account (hereinafter referred to as Special Account A) in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) The Borrower shall, for the purposes of Category (1)(b) of the table in paragraph 1 of Schedule 1 to this Agreement, open and maintain in dollars a special deposit account (hereinafter referred to as Special Account B) in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(d) The Borrower shall, for the purposes of Categories (2) through (5), of the table in paragraph 1 of Schedule 1 to this Agreement, open and maintain in dollars a special deposit account (hereinafter referred to as Special Account C) in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(e) 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, 1997 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on 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 semi-annual installments payable on each March 15 and September 15, commencing September 15, 2001, and ending March 15, 2031. Each installment to and including the installment payable on March 15, 2011 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.

Section 2.09. RBM is designated as representative of the Borrower in respect of Parts A, B and C.1 through C.3 of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end:

- (i) shall carry out Parts C.4 through C.7 of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause RBM to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable RBM to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 Parts C.4 through C.7 of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall make available nineteen million Special Drawing Rights (SDR 19,000,000) from the proceeds of the Credit to RBM under the RBM Agreement to be entered into between the Borrower and RBM, under terms and conditions which shall have been approved by the Association and which shall include, inter alia, (i) an undertaking by RBM to make loans to PFIs under PFI Agreements to be entered into with each PFI for financing Investment Projects under Parts A and B of the Project, under the terms and conditions specified in the Project Agreement; and (ii) that the proceeds of the Credit shall be relented at the Reference Rate; (iii) an undertaking by RBM to collect from and transfer to the Borrower, all payments of interest and repayments of principal from PFIs under PFI Agreements after retaining as a service charge, an amount not exceeding one-half of one percent from the interest paid by PFI's; and (iv) an undertaking by the Borrower to bear the foreign exchange risk.

(d) The Borrower shall make available from the proceeds of the Credit as grants:

- (i) to RBM (A) an amount equivalent to two hundred eighty thousand Special Drawing Rights (SDR

280,000) for the carrying out of Part C.1 of the Project; (B) an amount equivalent to six hundred twenty-five thousand Special Drawing Rights (SDR 625,000) for financing activities under Part C.2 of the Project; and (C) an amount equivalent to one hundred twenty-five thousand Special Drawing Rights (SDR 125,000) to finance technical assistance under Part C.3 of the Project; and

- (ii) to INDEBANK, an amount equivalent to two hundred forty-five thousand Special Drawing Rights (SDR 245,000) for carrying out Part C.6 of the Project; and
- (iii) to MDC, an amount equivalent to four hundred eighty-five thousand Special Drawing Rights (SDR 485,000) for carrying out Part C. 7 of the Project.

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

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A, B and C.1 through C.3 of the Project shall be carried out by RBM pursuant to Section 2.07 of the Project Agreement.

Section 3.04. The Borrower shall, by April 30, 1992, take all measures necessary to establish an Investment Promotion Agency with terms of reference, including staffing levels, costs and procedures, satisfactory to the Association.

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 Part C.4 through C.7 of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

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

concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special 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 (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) RBM shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that RBM will be able to perform its obligations under the Project Agreement.

(c) The RBM Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of RBM or its ability to carry out the Project or to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of RBM or for the suspension of its operations.

(e) An event has occurred which shall make it improbable that the reforms in the Statement of Policy or a significant part thereof, will be carried out.

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

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) RBM has appointed staff to manage its Apex Unit pursuant to paragraph 2 of Schedule 3 to the Project Agreement; and

(b) the Borrower has appointed the committee referred to in paragraph 3 of Schedule 4 to this Agreement.

Section 6.02. The following is specified as an additional matter, 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 Project Agreement has been duly authorized or ratified by RBM, and is legally binding upon RBM in accordance with its terms.

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

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
P.O. Box 30049
Capital City
Lilongwe 3
Malawi

Cable address:

FINANCE
Malawi

Telex:

44407 MI

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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

REPUBLIC OF MALAWI

By /s/ Robert B. Mbaya
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V. K. Jaycox
Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods and services for:		90% for Investment Projects in an ongoing Investment Enterprise and 80% for Investment Projects in a new Investment Enterprise
(a) Investment Projects under Part A of the Project; and	14,200,000	
(b) industrial sites under Part B of the Project	4,800,000	
(2) Equipment and vehicles under Part C of the Project:		100%
(a) Under Part C.4 of the Project	140,000	
(b) Other	140,000	
(3) Civil Works under Part C of the Project		80%
(a) Under Part C.4 of the Project	210,000	
(b) Other	140,000	
(4) Technical	1,325,000	100%

assistance,
consultants'
services and
training under
Part C of the
Project

(5) Incremental operating costs	835,000	80%
(6) Refunding of Project Preparation Advance	510,000	Amounts due pursuant to Section 2.02 (e) of this Agreement
TOTAL	22,300,000	=====

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;

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

(c) the term "incremental operating costs" means recurrent Part C of the Project on: (i) the operation and maintenance of vehicles; and (ii) office supplies and materials.

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 except that withdrawals in an amount not exceeding the equivalent of SDR 700,000 may be made in respect of Category (1)(a) on account of payments made for expenditures incurred before that date but after a date falling ninety days prior to the date of this Agreement; (b) expenditures with respect to Category (1) unless: (i) the Sub-loan, Investment or Lease Financing has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to the Project Agreement; and (ii) the relevant PFI has entered into a PFI Agreement, satisfactory to the Association, with RBM and the Association has approved at least one Investment Project submitted by such PFI under Section 2.02 (c) of the Project Agreement; and (c) expenditures with respect to Categories (2) (a) and (3) (a) unless the Borrower has established the Investment Promotion Agency pursuant to Section 3.04 of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to assist the Borrower in financing such productive facilities and resources in Malawi as will contribute to the economic and social development of the country; and (ii) to support the Borrower's efforts to expand exports and improve the policy and institutional framework for private sector investment.

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: Investment Finance

A line of credit to be made available, through RBM, to Participating Financial Intermediaries for provision of medium- and long-term financing for Investment Projects in the industrial, transport,

tourism, commercial and agro-industrial sectors.

Part B: Industrial Sites

A line of credit to be made available, through RBM, to Participating Financial Intermediaries, for provision of long-term financing for the construction and provision of roads, electricity, water and telecommunications infrastructure for industrial sites, including factory shells.

Part C: Institutional Capacity Development

1. Strengthening RBM's monetary policy management capability through technical assistance, training and the acquisition of equipment, including computers.
2. Restructuring the Post Office Savings Bank to function as an autonomous commercially-oriented financial institution, consultants' services and the acquisition of vehicles and equipment.
3. Strengthening RBM's capability to operate an export credit guarantee facility, including the acquisition of vehicles and equipment.
4. Establishment and operation of an investment promotion agency.
5. Establishment of a training and technical assistance fund to support improvement of the skill level of (a) entrepreneurs and (b) professional staff in institutions that support small- and medium-scale enterprises.
6. Strengthening INDEBANK's capability in merchant banking through technical assistance, training and the acquisition of vehicles and equipment.
7. Strengthening MDC's project management capability and its capacity to develop factory shells on a commercial basis including the acquisition of vehicles and equipment.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

Part B: Other Procurement Procedures

1. Items or groups of items estimated to cost the equivalent of \$1,000,000 or less per contract, up to an aggregate amount equivalent to \$24,000,000 may be procured under contracts awarded on the basis of procurement procedures of PFIs, which shall be consistent with commercial practice, satisfactory to the Association.
2. Items or groups of items for equipment and vehicles estimated to cost the equivalent of \$150,000 or less per contract, up to an aggregate amount equivalent to \$400,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally in accordance with procedures acceptable to the Association, which shall include the opening of bids in public.

3. Propriety equipment, or standardized equipment required for compatibility with existing equipment, may be procured on the basis of negotiated contracts, in accordance with procedures acceptable to the Association.

Part C: Review by the Association of Procurement Decisions

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

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

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

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

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

Section II. Employment of Consultants

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

SCHEDULE 4

Implementation Program

Project Coordination

1. The Secretary to the Treasury, Ministry of Finance shall be responsible for overall coordination of the activities of RBM and other agencies responsible for the implementation of the various components of the Project, including the carrying out of a Mid-Term Review in consultation with the Association by not later than December 31, 1993, to evaluate progress and status of Project implementation and, if necessary, redesign the Project to ensure that the objectives are achieved.

2. The Principal Secretary, Department of Economic Planning and Development (EP&D) shall coordinate and supervise the provision of services to industrial sites under Part B of the Project on the basis of plans and cost estimates which shall be submitted to EP&D by the various ministries, agencies and utilities required to provide services to such industrial sites.

Part C.4 of the Project

3. The Borrower shall appoint a committee to be chaired by the Principal Secretary, EP&D, to oversee the implementation of actions needed to set up the Investment Promotion Agency.

Part C.5 of the Project

4. The Fund which shall be established and managed by MTIT, shall address the human resources constraints of non-governmental institutions, commercial banks and other institutions supporting small- and medium-scale enterprises, and strengthen the capability of MTIT and EP&D to support industrial development.

The terms of reference, operating policies and procedures and eligibility criteria for beneficiaries of the Fund shall be satisfactory to the Association.

Part C.7 of the Project

5. In order to strengthen its management and build up capacity to prepare projects and develop industrial sites, MDC shall appoint an experienced adviser and an expert on project appraisal and planning, and submit a comprehensive development program, satisfactory to the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories: (i) in the case of Special Account A, Category (1)(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; (ii) in the case of Special Account B, Category (1)(b) of said table; and (iii) in the case of Special Account C, Categories (2) through (5) of said table;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works 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: (i) an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into Special Account A; (ii) an amount equivalent to \$750,000 to be withdrawn from the Credit Account and deposited into Special Account B; and (iii) an amount equivalent to \$250,000 to be withdrawn from the Credit Account and deposited into Special Account C all pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

such intervals as the Association shall specify.

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

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

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

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

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

- (b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

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

SCHEDULE 6

Modifications of the General Conditions

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

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

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

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

"or (e) by the date specified in subparagraph 8 (b) of Schedule 1 to the Project Agreement, the Association shall, in respect of any portion of the Credit: (i) have received no applications or requests permitted under subparagraph (a) of said paragraph; or (ii) have denied any such applications or requests, the Association may, by notice to the Borrower, terminate the right to submit such applications or approvals or to make withdrawals from the Credit Account, as the case may be, with respect to such amount or portion of the Credit. Upon the giving of such notice, such amount or portion of the Credit shall be cancelled."

