

CREDIT NUMBER 2104 MAG

Development Credit Agreement

(Financial Sector and Private Enterprise  
Development Project)

between

DEMOCRATIC REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 4, 1990

CREDIT NUMBER 2104 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 4, 1990, between DEMOCRATIC REPUBLIC OF MADAGASCAR (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) parts of the Project will be carried out by Banque Centrale de la Republique Democratique de Madagascar and, as part of such assistance, the Borrower will make available to Banque Centrale de la Republique Democratique de Madagascar parts 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 the Banque Centrale de la Republique Democratique de Madagascar;

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 4 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BCRDM" means the Banque Centrale de la Republique Democratique de Madagascar, established pursuant to its Statutes;

(b) "Statutes" means the statutes of BCRDM, dated June 12, 1973, as amended to the date of this Agreement;

(c) "Project Agreement" means the agreement between the Association and BCRDM, 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;

(d) "Subsidiary Loan Agreement" means the agreement between the Borrower and BCRDM to be entered into pursuant to the provisions of Section 3.03 of this Agreement;

(e) "MFB" means the Borrower's Ministry of Finance and Budget;

(f) "MIEM" means the Borrower's Ministry responsible for mining;

(g) "CCI" means the Chambers of Commerce and Industry of Madagascar;

(h) "JCEM" means the Association of Young Entrepreneurs;

(i) "Project Management Unit" means the unit of BCRDM responsible for the administration of the line of Credit to be made available under Part A of the Project;

(j) "SME Assistance Unit" means the unit responsible for small- and medium-scale enterprise promotion, within the Borrower's Ministry of Economy and Plan;

(k) "Sub-loan" means a loan or credit made or proposed to be made by a Participating Financial Institution to an Investment Enterprise for an Investment Project out of the equivalent of the proceeds of the Credit made available to such Participating Financial Institution by BCRDM;

(l) "Investment Enterprise" means an enterprise to which a Participating Financial Institution proposes to make or has made a Sub-loan;

(m) "Investment Project" means a specific development project, including expansions of existing projects, to be carried out by an Investment Enterprise utilizing the proceeds of a Subloan;

(n) "Participating Financial Institution" and "PFI" mean a bank or financial institution, eligible according to the provisions of Section 2.03 (b) of the Project Agreement, with which BCRDM entered, or proposes to enter, into an agreement ("Participation Agreement") for the purpose of relending parts of the proceeds of the Credit to Investment Enterprises for Investment Projects;

(o) "SME" means an enterprise whose net fixed assets do not exceed 450,000,000 FMG and whose ratio of net fixed assets divided by number of staff does not exceed 15,000,000 FMG;

(p) "FMG" means the currency of the Borrower;

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

(r) "Cooperation Agreement" means the agreement to be entered into by the Borrower and JCEM, or such other entity acceptable to the Association, pursuant to the provisions of Section 3.01 (b) of this Agreement; and

(s) "Project Preparation Advance" means the project preparation

advance granted by the Association to the Borrower pursuant to exchanges of letters dated February 25, 1988, June 8, 1988, November 23, 1988 and February 17, 1989, 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 six million four hundred thousand Special Drawing Rights (SDR 36,400,000).

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) under Part A of the Project by a Participating Financial Institution on account of withdrawals made by an Investment Enterprise under a Sub-loan 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 Parts B through E of the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall cause BCRDM, for the purposes of the Project, to open and maintain in dollars a special account in a commercial bank in the name of BCRDM 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 5 to this Agreement.

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

Section 2.03. The Closing Date shall be June 30, 1997 or such later date as the Association shall establish. The Association shall promptly notify the Borrower and BCRDM 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 and 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 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 February 1 and August 1 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 February 1 and August 1, commencing August 1, 2000 and ending February 1, 2030. Each installment to and including the installment payable on February 1, 2010 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded 790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due 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

#### Description of the Project; Use of Proceeds of the Credit

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall: (a) cause BCRDM to perform in accordance with the provisions of the Project Agreement all the obligations of BCRDM therein set forth, take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable BCRDM to perform such obligations, and not take or permit to be taken any action which would prevent or interfere with such performance;

(b) cause JCEM or such other entity as shall be acceptable to the Association to carry out Parts D.2 and E.1 of the Project with due diligence and efficiency and in conformity with appropriate administrative practices and in accordance with the Cooperation Agreement, whose terms and conditions shall have been approved by the Association;

(c) carry out Part C of the Project through MIEM, Parts D.1, and E.2, E.3 and E.4 through the SME Assistance Unit, and Part D.3 through MFB with due diligence and efficiency, and in conformity with appropriate administrative practices; and

(d) take and cause to be taken all action, including the provisions of funds, facilities, services and other resources required for Parts B through E of the Project and, without limitation upon the foregoing, make available to JCEM, or any other entity acceptable to the Association, the proceeds of the Credit allocated and withdrawn for the purpose of Parts D.2 and E.1 of the Project as a grant.

Section 3.02. With respect to Parts A and B of the Project, the Borrower shall make available the proceeds of the Credit allocated and withdrawn under Categories (1) and (2) of the table set forth in paragraph

1 of Schedule I to this Agreement to BCRDM under a Subsidiary Loan Agreement to be entered into between the Borrower and BCRDM under terms and conditions which shall have been approved by the Association which shall include:

- (a) for the purposes of Part A of the Project:
  - (i) subject to subparagraph (ii) below, an interest rate of 12% per annum minus an administration fee of half of one percent per annum of the amount withdrawn from Category 1 of the table set forth in paragraph 1 of Schedule 1 to this Agreement;
  - (ii) upon the establishment of a new money market interest rate structure, acceptable to the Association, the interest rate referred to above shall be determined by reference to that rate structure;
  - (iii) the principal amount shall be repaid in twenty (20) annual installments, the first of which is payable ten (10) years after the Effective Date of this Agreement;
  - (iv) the foreign exchange risk to be borne by the Borrower; and
  - (v) the obligation of BCRDM to enter into Participation Agreements with eligible Participating Financial Institutions, for the purpose of onlending the proceeds of the Credit withdrawn from Category I of the table set forth in paragraph 1 of Schedule 1 to this Agreement at the regular discount rate and, upon the establishment of the new money market interest rate structure acceptable to the Association, at the general reference rate resulting from that rate structure, subject to the provisions of Section 3.03 below, with maturities equal to the maturities and grace periods of the Sub-loans made by any such Participating Financial Institution to Investment Enterprises; and
- (b) for the purposes of Part B of the Project that the funds allocated to Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement will be made available to BCRDM as a grant.

Section 3.03. During execution of the Project, the Borrower and the Association shall review the onlending arrangements to determine whether they are adequate to reflect the economic cost of capital and to compensate the Borrower for the foreign exchange risk referred to in Section 3.02 (iv) above and the Borrower shall promptly adjust the onlending rates referred to in Section 3.02 (a) (i), (ii) and (v) above if they are found inadequate by the Association after any such review.

Section 3.04. The Borrower shall exercise its rights under the Subsidiary Loan Agreement and the Cooperation 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 any such agreement or any provision thereof.

Section 3.05. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Parts B through E of 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 3.06. 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 and B of the Project shall be carried out by BCRDH pursuant to Section 2.05 of the Project Agreement.

Section 3.07. By December 31, 1991 or such other date as the Borrower and the Association shall agree, the Borrower and the Association shall exchange views on the actions specified in Schedule 6 to this Agreement.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain within MFB separate records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of the Borrower in respect of Parts C through E of the Project.

(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 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 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 (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) BCRDM 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 the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that BCRDM will be able to perform its obligations under the Project Agreement.

(c) The Statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations

or financial condition of BCRDM or its ability to carry out its responsibilities under Parts A and B of 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 BCRDM or for the suspension of its operations.

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 (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 BCRDM; and

(b) any event specified in paragraph (c) or (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) the Subsidiary Loan Agreement has been signed by the Borrower and BCRDM;

(b) BCRDM has adopted a new reserve requirement determination system applicable to the banking sector, acceptable to the Association;

(c) BCRDH has started to publish the outcome of treasury bill auctions;

(d) BCRDM has increased its threshold for prior authorization of credits to FMG 5 billion;

(e) BCRDM has modified the system of fixing individual credit ceilings for banks, in a manner acceptable to the Association;

(f) BCRDM has issued an instruction which clarifies the provisions of Article 51 of the Banking Law in a manner acceptable to the Association; and

(g) BCRDM has resumed the regular publications of its statistical bulletin.

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

(a) that the Project Agreement has been signed by a person duly authorized by BCRDM, and is legally binding upon BCRDM in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly signed and authorized by, and is legally binding upon the Borrower and BCRDM 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.

Section 6.04. The obligations of the Borrower under the provisions of paragraphs (a) and (b) of 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 (20) years after the date of this Agreement, whichever shall be the earlier.

#### ARTICLE VII





(1) Goods and service financed by Sub-loans under Part A of the Project:		
(a) first phase	13,600,000	100% of amounts disbursed by PFIs
(b) second phase	20,430,000	100% of amounts disbursed by PFIs
(2) Goods, training and consultants' services for Part B of the Project	260,000	100% of foreign expenditures, 100% of local expenditures for consultants' services and training and 80% of expenditures for goods procured locally
(3) Goods and consultants' services for Part D.1 of the Project	30,000	100% of foreign expenditures, 100% of local expenditures for consultants' services and 80% of expenditures for goods procured locally
(4) Goods, training and consultants' services for Part D.2 and E.1 of the Project	190,000	100% of foreign expenditures, 100% of local expenditures for consultants' services, and training and 80% of expenditures for goods procured locally
(5) Goods and consultants' services for Parts C and E.2 through E.4 of the Project	860,000	100% of foreign expenditures, 100% of local expenditures consultants' services and 80% of expenditures for goods procured locally
(6) Goods and consultants' services for Part D.3 of the Project	80,000	100% of foreign expenditures, 100% of local expenditures for consultants' services and 80% of expenditures for goods procured locally
(7) Refunding of Project Preparation Advance	570,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	360,000	

TOTAL 36,400,000

2. For the purposes of this Schedule:

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

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

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

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

(b) in respect of Sub-loans made, or to be made by any Participating Financial Institution, and subject to the provisions of sub-paragraph (c) of this paragraph, unless: (i) the Sub-loan has been made in accordance with the procedures and the terms and conditions set forth or referred to in Part B of the Schedule of the Project Agreement and has been approved or authorized in accordance with the provisions of Parts A or B of the Schedule to the Project Agreement; and (ii) BCRDM has entered into a Participation Agreement in accordance with the provisions of Section 2.02 (b) of the Project Agreement with the respective Participating Financial Institution;

(c) in respect of Sub-loans to be financed out of the proceeds of the Credit allocated to Category (1) (b) unless the Association is satisfied, after an exchange of views as described in Section 3.07 of this Agreement, that the actions set forth in Schedule 6 to this Agreement have been taken;

(d) in respect of payments made, or to be made, for expenditures under Category (4) unless the Cooperation Agreement has been signed by the Borrower and JCEM, or another entity acceptable to the Association, in accordance with the provisions of Section 3.01 (b) of this Agreement;

(e) in respect of payments made, or to be made, for expenditures under Category (3) unless the Borrower has published new Statutes of CCI acceptable to the Association; and

(f) in respect of payments made, or to be made, for expenditures under Category (6) unless the investment promotion center has been established with responsibilities and operating procedures acceptable to the Association.

4. If, after an exchange of views referred to in sub-paragraph 3 (c) above, the Association is not so satisfied and this situation shall not be rectified by the Borrower within ninety (90) days after notice thereof by the Association, then the Association may, by notice to the Borrower, cancel the remaining amount of the Credit allocated to Category 1 (b) of paragraph 1 above, or any part thereof.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (i) to assist in financing such productive facilities as will contribute to the economic and social development of Madagascar; and (ii) to strengthen institutions in the mining and financial sector and those assisting small- and medium-scale enterprises.

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: Line of Credit

The financing of specific Investment Projects through Sub-loans granted to Investment Enterprises by Participating Financial Institutions.

Part B: Financial Sector

1. Carrying out of seminars in project evaluation and credit supervision for higher level staff of Participating Financial Institutions and BCRDM.
2. Strengthening of the supervision function and the capacity of monetary market management of BCRDM through provision of computer equipment and software and training, including training overseas.

Part C: Mining Sector

1. Assistance for the preparation of a new mining code.
2. Assistance for small mining operators.
3. Market opportunity studies for specific minerals and preparation of the reorganization of the mining laboratory of MIEM.

Part D: Private Sector Framework

1. Restructuring of CCI, and provision of training, and telecommunication and data processing equipment.
2. A communication and motivation campaign including periodic promotional missions in each Faritany an information campaign in local media, and distribution of printed information material to promote the activities of the private sector.
3. Establishment of an investment promotion center and provision of equipment therefor.

Part E: Development of Small- and Medium-Scale Enterprises

1. Scholarships for overseas in-plant training and in-company visits of SME entrepreneurs and promoters.
2. Feasibility studies for SME promoters.
3. Provision of technical assistance to SMEs in management techniques and data processing.
4. Strengthening of the SME Assistance Unit and provision of equipment.

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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 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 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 Madagascar 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

All contracts for goods estimated to cost the equivalent of \$2,000,000

or less 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.

Part D: Review by the Association of Procurement Decisions

1. (a) With respect to each contract for goods estimated to cost the equivalent of \$200,000 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 paragraph 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts 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 5 to this Agreement.

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

SCHEDULE 4

Modifications of 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 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 paragraph C. 3 of the Schedule to the Project Agreement, the Association shall, in respect of any portion of the Credit: (i) have received no applications or requests permitted under sub-paragraphs (1) or (2) of said paragraph; or (ii) have denied any such applications or requests, the Association may, by notice to the Borrower, terminate the right to submit such applications or approvals or to make withdrawals from the Credit Account, as the case may be, with respect to such amount or portion of the Credit. Upon the giving of such notice, such amount or portion of the Credit shall be cancelled."

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) 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 of \$3,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

##### Actions Referred to in paragraph 3 (c) of Schedule 1

1. BCRDM has abolished individual credit ceilings for banks.
  2. The Borrower has taken adequate measures to prohibit BCRDM staff members to be directors on boards of banks or financial institutions which are supervised by BCRDM.
  3. BCRDM has abolished the maximum spread applicable to Sub-loans, made by PFIs to Investment Enterprises.
  4. BCRDM has abolished its system of prior authorization of credits.
  5. The Borrower has published new Statutes of CCI, acceptable to the Association.
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