

CONFORMED COPY

CREDIT NUMBER 2880 CE

Development Credit Agreement

(Private Sector Infrastructure Development Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 25, 1996

CREDIT NUMBER 2880 CE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 25, 1996, between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (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; and

(B) the Borrower intends to obtain from Kreditanstalt für Wiederaufbau (KfW) a loan (the KfW Loan) in an amount of Deutsche Marks 20,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and KfW (the KfW Loan Agreement);

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development

Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth in Schedule 3 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) "PSIDC" means the Private Sector Infrastructure Development Company Limited, a body corporate established and existing under the Sri Lanka Companies Act No. 17 of 1982;

(b) "Memorandum and Articles of Association" means the Memorandum and Articles of Association of PSIDC, dated August 31, 1995, as amended to the date of this Agreement;

(c) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PSIDC pursuant to Section 3.02 (a) of this Agreement as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Subsidiary Loan Agreement;

(d) "Brochure" means the brochure, referred to in paragraph 2 (b) of Part A of Schedule 4 to this Agreement, describing the Borrower's policies and procedures for private sector participation in selected sectors;

(e) "Operations Manual" means an operations manual for PSIDC which sets out the guidelines for appraisal, approval and supervision of Investment Projects;

(f) "Subloan" means a loan made or proposed to be made by PSIDC out of the proceeds of the Credit to an Investment Enterprise for an Investment Project;

(g) "Investment Enterprise" means an enterprise to which PSIDC proposes to make or has made a Subloan;

(h) "Investment Project" means a specific development project in selected sub-sectors of the infrastructure sector to be carried out by an Investment Enterprise utilizing the proceeds of a Subloan;

(i) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated September 21, 1995 and November 1, 1995 between the Borrower and the Association;

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

(k) "Rs" and "rupees" mean the currency of the Borrower.

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 fifty-two million nine hundred thousand Special Drawing Rights (SDR 52,900,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account 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 7 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, 2002 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 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 May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2006 and ending May 15, 2036. Each installment to and including the installment payable on May 15, 2016 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 Association shall consider the Borrower creditworthy for Association lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from

time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, or cause the Project to be carried out, with due diligence and efficiency and in conformity with appropriate administrative, financial and commercial practices, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project, or cause the Project to be carried out, in accordance with the Implementation Program set forth in Schedule 6 to this Agreement.

Section 3.02. (a) The Borrower shall relend the proceeds of the Credit, allocated from time to time to Category 1 of the table set forth in paragraph 1 of Schedule 1 to this Agreement, to PSIDC under a subsidiary loan agreement to be entered into between the Borrower and PSIDC, under terms and conditions which shall have been approved by the Association, which shall include, inter alia, those set forth or referred to in Schedule 4 to this Agreement, and shall make available as a grant the proceeds of the Credit allocated from time to time to Category 2 of the table set forth in paragraph 1 of Schedule 1 to this Agreement to PSIDC.

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

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 5 to this Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Borrower shall:

(a) prepare, or cause to be prepared, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan, of such scope and in such detail as the Association shall reasonably request, for the future operation of the Project, including, without limitation, its proposals for (i) restructuring and potential privatization of PSIDC, or (ii) the orderly suspension and unwinding of PSIDC's lending operations; and

(b) afford the Association a reasonable opportunity to

exchange views with the Borrower on said plan.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to monitor the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with 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 and the operation and financial condition of PSIDC and of each Investment Enterprise.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account and the financial statements (balance sheets, statements of income and expenses and related statements) of PSIDC and of each Investment Enterprise 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 copies of said financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements 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 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) PSIDC shall have failed to perform any of its obligations under the Subsidiary Loan 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 PSIDC will be able to perform its obligations under the Subsidiary Loan Agreement;
- (c) The Memorandum and Articles of Association shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PSIDC to perform any of its obligations under the Subsidiary Loan Agreement;
- (d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PSIDC or for the suspension of its operations; or
- (e)
 - (i) Subject to subparagraph (ii) of this paragraph: (A) the right of the Borrower to withdraw the proceeds of the KfW Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or (B) the KfW Loan shall have become due and payable prior to the agreed maturity thereof.
 - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

- (a) the event specified in paragraph (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;
- (b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur; and
- (c) the event specified in paragraph (e) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (e) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

- (a) the Subsidiary Loan Agreement has been entered into by the Borrower and PSIDC, respectively; and
- (b) all conditions precedent to the effectiveness of the KfW Loan Agreement, other than the effectiveness of this Agreement, have been fulfilled.

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 Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and PSIDC and is legally binding upon the Borrower and PSIDC 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. The Secretary, or the Director General, External Resources Department, Ministry of Finance and Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance and Planning
Democratic Socialist Republic of Sri Lanka
Colombo, Sri Lanka

Cable address:

SECMINFIN
Colombo

Telex:

FINMIN 21409
FORAID 21232

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

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

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ Jayantha Dhanapala
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ D. Joseph Wood
Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Part A of the Project:	44,530,000	
(a) Works		100% of foreign expenditures and 85% of local expenditures
(b) Equipment		100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
(c) Interest and other charges on Subloans accrued during the construction of Investment Project		100% of amounts capitalized pursuant to Schedule 4, Part B 1 (f) of this Agreement
(d) All risks and marine insurance		100% of foreign expenditures
(2) Part B of the Project:		
(a) Consultants' services and training	2,360,000	100%
(b) Equipment and materials	220,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 70% of other items procured locally
(c) Staff and administrative costs	1,870,000	100% through June 30, 1999; thereafter 70% through June 30, 2001
(3) Refunding of Project Preparation Advance	480,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(4) Unallocated	3,440,000	
	<hr/>	
TOTAL	52,900,000 =====	

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 "staff and administrative costs" means the salaries and allowances of staff under contract with PSIDC for the purposes of the Project, as well as PSIDC's office operating expenses.

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

(a) expenditures under Category (1): (i) unless the Borrower has furnished to the Association the Brochure and the Operations Manual, both satisfactory to the Association; and (ii) for works, goods or services under a Subloan unless such Subloan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 4 to this Agreement; and

(b) payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account in respect of Part B of the Project to be made on the basis of statements of expenditure for expenditures for goods under contracts costing less than \$30,000 equivalent, and consultants' services under contracts not exceeding the equivalent of \$100,000, in the case of firms, and \$50,000, in the case of individuals, and for all training and incremental staff costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in developing a modern and efficient system of infrastructure in the Borrower's territory by promoting significant participation of the private sector in the investment, operation, ownership and maintenance of infrastructure facilities.

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 objective:

Part A: Investment Projects

Financing by PSIDC of Investment Projects through the provision of Subloans to Investment Enterprises.

Part B: Institution Building

Provision of technical and other assistance for: (1) strengthening PSIDC; (2) preparation of individual subprojects suitable for private sector investment and participation; and (3) developing sectoral policy and regulations relating to infrastructure.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Modifications of General Conditions

For the purpose 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 second sentence of Section 5.01 is modified to read as follows:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expen-

ditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

3. With respect to Part A of the Project, 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 sub-paragraph 5 (b) of Part B of Schedule 4 to the Development Credit Agreement, the Association shall, in respect of any portion of the Credit: (i) have received no applications under subparagraph (a) of said paragraph; or (ii) have denied any such applications the Association may, by notice to the Borrower, terminate the right of the Borrower to submit such applications 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 4

Investment Projects and Subloans

Part A: Investment Projects

1. Financing of Investment Projects

(a) For the purposes of financing Investment Projects, the Borrower shall relend to PSIDC part of the proceeds of the Credit under the Subsidiary Loan Agreement referred to in Section 3.02 (a) of this Agreement, under terms and conditions which shall include, inter alia: (A) an interest rate of 0.75 percent per annum; and (B) a maturity of 40 years, including a grace period of 10 years.

(b) PSIDC shall provide financing for each Investment Project, including the Subloan approved for such Investment Project, in amounts not to exceed 40 percent of the total cost of such Investment Project on terms and conditions, satisfactory to the Association, including those set forth in Part B of this Schedule.

(c) In addition to the financing provided by the PSIDC, the Investment Enterprise sponsoring such Investment Project shall be required to provide financing through equity investment sufficient to cover at least 20 percent of the cost of the Investment Project and the remainder of the cost of the Investment Project through commercial loans and/or export credits raised without the Borrower's guarantee. To attract such financing, the Borrower shall take or cause to be taken, with respect to each Investment Project, the measures described in the Annex to this Schedule.

2. Evaluation and Approval Criteria for Investment Projects

(a) The Borrower shall cause PSIDC not to make any Subloan unless the Borrower and the Association are satisfied that:

- (i) the Investment Enterprise sponsoring the Investment Projects shall be able to arrange financing for the Investment Project on a limited recourse basis;
- (ii) the Investment Project meets the Borrower's priority plan and takes into account the Borrower's policy and regulatory frameworks;
- (iii) the Investment Enterprise uses proven technology;

- (iv) the Investment Project is technically and financially viable and will have an economic rate of return of at least 12 percent;
- (v) the Investment Enterprise will have at least 20 percent of the total project cost provided as equity; and
- (vi) the environment and social assessment of the Investment Projects will meet the criteria as set out in 5 (b).

(b) The Borrower shall continue to make available, for the use of Investment Enterprises, a Brochure, in substance satisfactory to the Association, inter alia, describing the policy and procedures for private sector participation in selected subsectors of the infrastructure sector (including the measures set forth or referred to in the Annex to this Schedule).

3. Appraisal, Approval and Supervision of Investment Projects

(a) The Borrower shall cause PSIDC to use its operational guidelines, including the guidelines for the appraisal, approval and supervision of Investment Projects, and models of the Implementation and Purchase Agreements referred to in paragraphs (ii) (a) and (b) of the Annex to this Schedule (the Operations Manual), subject to such modifications thereof as shall be considered appropriate by the Borrower and the Association.

(b) With respect to each Investment Project, the Borrower shall cause PSIDC, in accordance with the Operations Manual to:

- (i) require the Investment Enterprise sponsoring the Investment Project, with the assistance of consultants employed by the Investment Enterprise under terms of reference and with qualifications and experience satisfactory to the Association, to prepare a detailed feasibility study covering matters including: (aa) suitability of site; (bb) availability of inputs; (cc) appropriateness of, and proven experience with, the technology offered; (dd) project design; (ee) arrangements for detailed engineering; (ff) cost estimates; (gg) construction and procurement arrangements; (hh) arrangements for operation and maintenance; (ii) arrangements for compliance with environmental and resettlement standards; (jj) financial viability of the Investment Project; (kk) adequacy of the proposed financing and the incentives to be offered to attract such financing, including the contractual arrangements to be made therefor; and (ll) the corporate structure of the Investment Enterprise; and
- (ii) review such feasibility study and, on the basis thereof, prepare and furnish to the Association for its review and approval, pursuant to paragraph 5 (a) of Part B of this Schedule, a comprehensive appraisal report on the Investment Project.

4. Preparation and Implementation of Investment Projects

Prior to making a Subloan, the Borrower shall cause PSIDC to require the Investment Enterprise sponsoring such Investment Project to engage:

(a) engineering experts with qualifications and experience and terms of reference satisfactory to the Association for the preparation of detailed designs and bidding documents and supervision of project implementation; and

(b) financial experts with qualifications and experience and

terms of reference satisfactory to the Association for the preparation of proposals for and assistance in mobilizing project financing.

5. Environmental Standards for Investment Projects

Each Investment Project shall comply with the standards set forth in the Bank's "Environmental Guidelines" dated September 1988 and the Bank's "Occupational Health and Safety Guidelines" dated September 1988. To that end, the Borrower shall, or shall cause PSIDC to:

(a) specify such standards in the Brochure;

(b) require each Investment Enterprise applying for a Subloan to furnish evidence satisfactory to the Borrower and the Association showing that the Investment Project in respect of which the application has been made would comply with such standards, such evidence to include an environmental impact assessment and, where applicable, a resettlement plan for displaced populations for such Investment Project based on principles and procedures satisfactory to the Association; and

(c) in respect of each Investment Project, include in the Letter of Intent referred to in paragraph (i) of the Annex to this Schedule and the Implementation Agreement referred to in paragraph (ii) (a) of the Annex to this Schedule a suitable provision obligating the Investment Enterprise sponsoring such Investment Project to ensure compliance with such standards.

Part B: Subloans

1. Except as the Association shall otherwise agree, the terms and conditions of each Subloan shall include:

(a) Interest rate - the Investment Enterprise may choose between:

(i) a variable rate equal to the prevailing six month United States dollar LIBOR plus a spread of 300 basis points;

(ii) a fixed rate based on the maturity of the Subloan and the market swap rate between variable and fixed interest rates for United States dollar debt at the time the Subloan is negotiated, plus a spread of 300 basis points; and

(iii) for the purposes of subparagraph (a):

(aa) "LIBOR" means the London interbank offered rate for six month deposits in United States dollars;

(bb) "basis point" means one hundredth of one percent; and

(cc) "market swap rate" means, at the time of loan negotiations, the fixed rate quoted in the relevant swap market as the equivalent of the United States dollar six month LIBOR.

(b) Maturities up to 22 years, with a maximum grace period of 8 years;

(c) The principal amount of the loan repayable by the Investment Enterprise shall be the equivalent (determined as of the date or the respective dates, of repayment) of the value of the currency or currencies withdrawn from the Credit Account expressed in terms of United States dollars at the time of withdrawal;

(d) Interest payable by the Investment Enterprise shall be determined in United States dollars and the payments thereof shall

be the equivalent in Rupees of the United States dollar-Rupee exchange rate on the date the interest payment falls due;

(e) Fees; and

(f) Interest costs during construction for Investment Projects would be capitalized and would be eligible for financing out of the credit.

2. The Borrower shall cause PSIDC to: (a) carry out an annual review of lending terms and conditions, in consultation with the Association, not later than April 30 of each year; and (b) adjust such terms and conditions for new Subloans with effect from July 1 of such year.

3. The Borrower shall ensure that the proceeds resulting from the difference between the terms monies are lent to PSIDC by the Borrower and the terms of the Sub-loans will be retained by PSIDC in order to cover its operating expenses and future lending operations.

4. No expenditures for goods or works required for an Investment Project shall be eligible for financing out of the proceeds of the Credit unless the Subloan for such Investment Project shall have been approved by the Association and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the application and information required under paragraph 5 (a) of Part B of this Schedule in respect of such Subloan.

5. (a) The Borrower shall cause PSIDC, when presenting a Subloan to the Association for approval, to furnish to the Association an application, in form satisfactory to the Association together with (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Subloan, including the schedule of amortization of the Subloan; and (iii) such other information as the Association shall reasonably request.

(b) Applications made pursuant to the provisions of subparagraph (a) of this paragraph shall be presented to the Association on or before June 30, 2000.

6. Subloans shall be made on terms whereby PSIDC shall obtain, by written consent with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of PSIDC, the Borrower and the Association, including the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project: (i) with due diligence and efficiency and in accordance with sound technical, environmental, financial, commercial, and managerial standards and to maintain adequate records; and (ii) without limitation upon the foregoing and to the extent relevant, in accordance with the provisions of Part A of, and the Annex to, this Schedule;

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

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

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit

to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

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

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

Annex to Schedule 4

Contractual Framework for Implementing Investment Projects

In order to clearly lay down the mutual rights and obligations of the Borrower, PSIDC, the Investment Enterprise and the latter's lenders/creditors, the Borrower shall with respect to each Investment Project:

- (i) issue to the Investment Enterprise a letter of intent, in form and substance satisfactory to the Association, conveying the Borrower's preliminary approval of the Investment Enterprise to prepare and submit a detailed feasibility study for the Investment Project; proposal
- (ii) following approval by the Borrower of the detailed feasibility study for the Investment Project, require the Investment Enterprise to enter into the following agreements, each in form and substance satisfactory to the Association:
 - (a) an Implementation Agreement with the Borrower, superseding the letter of intent referred to in (i) above and setting forth the obligations of the Investment Enterprise, particularly with respect to the financing, design, construction, and operation and maintenance of the Investment Project within mutually agreed parameters and to mutually acceptable standards;
 - (b) a Purchase Agreement, if applicable, between an Investment Enterprise and the purchaser of the services provided by the Investment Project, setting forth the obligations of the Investment Enterprise, particularly with respect to the operation of the Investment Project to mutually acceptable standards, and the obligations of the purchaser, particularly with respect to the purchase of a guaranteed minimum of the services provided by the Investment Project, the purchase price of such services, and the adjustment of such price in accordance with agreed adjustments indices to reflect changes in prices of inputs and exchange rate movements;
 - (c) a Construction Agreement between an Investment Enterprise and a contractor responsible for the construction and commissioning of the Investment Project, and performance guarantee furnished by the contractor;
 - (d) an Operation and Maintenance Agreement with the operator (if other than the Investment Enterprise itself) of the Investment Project, approved by the Borrower and setting forth the obligations of the operator, particularly with respect to the operation of the Investment Project to the standards

specified in the Implementation Agreement referred to in (a) above and in the Purchase Agreement referred to in (b) above, and including a performance guarantee furnished by the operator;

- (e) a Supply Agreement, to the extent relevant, required by the Investment Project setting forth the obligations of the supplier, particularly with respect to the quality, quantity and frequency of supplies, and the penalties for inadequate performance of such obligations; and
- (f) other agreements, including a Shareholders' Agreement (setting forth the rights and obligations of the shareholders of the Investment Enterprise), a Loan Agreement or Agreements (setting forth the obligations of the Investment Enterprise towards its lenders/creditors) and an Escrow Agreement (establishing and providing for a debt service escrow and other escrow accounts, if necessary, which shall at all times hold sufficient funds to meet debt service payments in respect of the Investment Project).

SCHEDULE 5

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

(c) Preference of domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. Investment Project Procurement

(a) Except as otherwise provided in subparagraph (b) hereof, an Investment Project shall be constructed under a contract awarded to an Investment Enterprise selected on the basis of international competitive bidding procedures or, with the prior approval of the Association, limited international bidding procedures, in accordance with the provisions of Section II or paragraph 3.2 of the Guidelines, respectively, subject to the provisions of paragraph 3.13 (a) thereof. The goods and works required for the construction of such Investment Project shall then be procured in accordance with the applicable procedures of such Investment Enterprise.

(b) In those cases where an Investment Enterprise has not been selected in accordance with the procedures set forth in subparagraph (a) hereof, the goods and works to be financed out of the proceeds of the Credit required for an Investment Project to be constructed by such Investment Enterprise shall be procured under contracts awarded on the basis of international competitive bidding procedures, or, with the prior approval of the Association, limited international bidding procedures in accordance with, respectively, the provisions of Section II or paragraph 3.2. Up to 20 percent of the goods and works required for an Investment Project to be constructed by such Investment Enterprise and financed out of the proceeds of the Credit may be procured under contracts awarded: (i) with due attention to considerations of economy and efficiency; (ii) in accordance with sound commercial procedures which meet the requirements of paragraphs 1.5 and 1.6 of the Guidelines; provided, however, that, with respect to each Investment Project for which such equipment and works are required, no such contract shall be eligible for financing out of the proceeds of the Credit if it shall have been awarded to suppliers and/or contractors who are also the sponsors or shareholders of the Investment Enterprise carrying out the Investment Project.

2. Limited International Bidding

All risks and marine insurance may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

3. National Shopping

Equipment and materials required for Part B of the Project estimated to cost \$50,000 equivalent or less per contract and \$250,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraph 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract financed out of a Subloan and estimated to cost the equivalent of \$1,000,000 or more and each contract under Part B of the Project estimated to cost the equivalent of \$30,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of

this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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, such contracts shall be based on the standard form of contract for consultants' services issued by the Association, with such modification thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 6

Implementation program

1. The Borrower shall:

(a) prepare and furnish to the Association by September 15, 1996, for its approval, proposals for the staffing and benefit package for PSIDC; and

(b) thereafter implement such proposals as the Association shall have approved.

2. The Borrower shall employ consultants who will assist PSIDC in carrying out the Project in accordance with a timetable satisfactory to the Association.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by March 31, 1999 a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) above, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by June 30, 1999, or such later date as the Association shall request, the report referred to in paragraph (b) above, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommenda-

tions of the said report and the Association's review on the matter.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (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 Part B of the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$400,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$200,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,500,000 under the eligible Category.

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 deposit into the Special Account of an amount or amounts determined by the Association to be required to pay for eligible expenditures during the four months following the date of each request, which amount shall 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 Association shall have determined to be so required.

(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 eligible category, 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;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories minus the total amount of all outstanding special commitments 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 Category 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; or (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.

