

CONFORMED COPY

CREDIT NUMBER 1860 CE

(Third Small and Medium Industries Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 10, 1988

CREDIT NUMBER 1860 CE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 10, 1988, between 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;

(B) from the Asian Development Bank (ADB), the Borrower intends to contract a loan (the ADB Loan) in an amount equivalent to SDR 11,646,000 to assist in financing the Project on terms and conditions set forth in an agreement (the ADB Agreement) to be entered into between the Borrower and ADB; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "First Agreement" means the Development Credit Agreement (Small and Medium Industries Project) between the Borrower and the Association dated July 24, 1979, and "Second Agreement" means the Development Credit Agreement (Second Small and Medium Industries Project) between the Borrower and the Association dated February 5, 1982;

(b) "NDB" means the National Development Bank of the Borrower established under the National Development Bank Act, No. 2 of 1979;

(c) "SMI Fund" means the Small and Medium Industries Fund established pursuant to the provisions of Section 3.02 (b) of the First Agreement and operating under the First and Second Agreements;

(d) "Participating Credit Institution" means the Bank of Ceylon, Commercial Bank of Ceylon, Development Finance Corporation of Ceylon, Hatton National Bank, People's Bank, and any other state or privately held credit institution established or operating under the laws of the Borrower, which has entered into a participation agreement with NDB pursuant to the provisions of Part 4 of Schedule 4 to this Agreement;

(e) "Small and Medium Size Industry" means any enterprise privately or cooperatively owned, with plant and equipment with a book value (excluding land and buildings) of less than Rs 4,000,000, prior to the granting of a Sub-loan;

(f) "Sub-loan" means a loan made or proposed to be made by a Participating Credit Institution in accordance with the provisions of this Agreement and which is or proposed to be refinanced by the proceeds of the Credit;

(g) "Sub-project" means a sub-project for which a sub-loan is made or proposed to be made by a Participating Credit Institution under the Project;

(h) "Subsidiary Loan Agreement" means the agreement entered into between the Borrower and NDB pursuant to Section 3.03 of this Agreement, as the said agreement may be amended from time to time with the consent of the Association;

(i) "Statement of Policy" means the statement of strategy and policy for SMI operations as adopted and approved by NDB's Board of Directors;

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

(k) "AWPR" means the Average Weighted Prime Rate, an index of interest rates charged by the commercial banks to their prime customers; such index is compiled and published on a weekly basis by the Central Bank of Sri Lanka. For the purposes of this

Agreement, the initial AWPR to be applied will be the AWPR in force on the Effective Date, and the Borrower and the Association may mutually agree to substitute another index or indicator;

(l) "Cumulative Principal Collection Ratio" means the ratio of (i) total principal collections to date from Sub-loans refinanced from the SMI Fund to (ii) total principal installments due on Sub-loans refinanced from the SMI Fund;

(m) "Annual Collection Ratio" means the ratio of (i) annual cash collections to (ii) total collectibles for the period under consideration; for the purposes of this Agreement, "total collectibles" means assets at the beginning of the period plus current dues during the period less repayments rescheduled during the period;

(n) "Principal Infection Ratio" is defined as the ratio of (i) total principal outstanding for loans which are in arrears of six months or more, to (ii) total principal outstanding; and

(o) "Rs" means Rupees, 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 fifteen million seven hundred thousand Special Drawing Rights (SDR 15,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Association for expenditures made (or, if the Association shall so agree, to be made): (i) in respect of Sub-loans under Part A of the Project; and (ii) in respect of the reasonable cost of goods and services required for Parts B, C and D of the Project and to be financed out of the proceeds of the Credit.

(b) A free-limit Sub-loan shall be a Sub-loan for a Sub-project in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum of Rs 4,000,000 equivalent when added to any other outstanding amounts financed or proposed to be financed for such Sub-project out of the proceeds of the Credit, provided, however, that no amount shall be withdrawn from the Credit Account unless (A) the Sub-loan shall have been approved by the Association or (B) the Sub-loan shall be a free-limit Sub-loan for which the Association shall have authorized withdrawals from the Credit Account. NDB shall in turn authorize refinancing to the Participating Credit Institutions on the basis of NDB's prior approval of Sub-loans of Rs 2,000,000 or more for all Participating Credit Institutions other than the Development Finance Corporation of Ceylon. For Sub-loans of less than Rs 2,000,000 in the case of Participating Credit Institutions other than the Development Finance Corporation of Ceylon, and for Sub-loans of less than Rs 4,000,000 in the case of the Development Finance Corporation of Ceylon, the NDB shall authorize refinancing to a Participating Credit Institution within two weeks following application from such Participating Credit Institution and without undertaking a further review of the Sub-project's commercial and economic viability.

(c) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Association for approval, the Borrower shall furnish or cause to be furnished to the Association, an application in form satisfactory to the Association, together with: (i) a description and appraisal of the Sub-project, including the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Sub-loan,

including the amortization schedule thereto; and (iii) such other information as the Association shall reasonably request.

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

(e) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1993 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 at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) 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 April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 15 and October 15 commencing April 15, 1998 and ending October 15, 2027. Each installment to and including the installment payable on October 15, 2007 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

Section 2.09. The General Manager of NDB, or such person or persons as NDB shall appoint in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 5 to this Agreement.

Section 3.03. In order to carry out Part A of the Project, the Borrower shall relend to NDB for the account of SMI Fund, the equivalent in rupees of such amounts as shall be withdrawn from the Credit Account under Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, under a subsidiary loan agreement on terms and conditions satisfactory to the Association including those set forth in Schedule 3 to this Agreement.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

- (ii) furnish to the Association, as soon as available, but in any case not later than four months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
 - (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.
- (c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:
- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
 - (ii) retain, until at least one year after the Association has received the audit 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) The National Development Bank Act, No. 2 of 1979, shall have been amended, suspended, abrogated, repealed or waived so as, in the judgment of the Association, to materially affect the carrying out of the Project or the operations or financial condition of NDB.

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

(c) A change shall have been made in the Statement of Policy without the Association's consent.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of NDB or SMI Fund, or for the suspension of the operations of NDB or SMI Fund.

(e) The ADB Agreement shall have failed to become effective by June 30, 1988, or such later date as the Association may agree, provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

- (f) (i) Subject to subparagraph (ii) of this paragraph: (A) The right of the Borrower to withdraw the proceeds of the ADB Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the ADB Agreement, or (B) the ADB Loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement, and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

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

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

(c) any events specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (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 NDB; and

(b) agreements have been entered into by NDB with at least two Participating Credit Institutions in accordance with the provisions of Part 4 of Schedule 4 to this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Subsidiary Loan Agreement has been duly authorized or ratified by, and is legally binding upon the Borrower and NDB 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 Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this

Agreement, the Secretary, Ministry of Finance and Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Cable address:

SECMINFIN
Colombo

Telex:

FINMIN 21409
FORAID 21232

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

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

DEMOCRATIC SOCIALIST REPUBLIC
OF SRI LANKA

By /s/ Susanta de Alwis
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. Karaosmanoglu
Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Amount of the Credit Allocated	% of
-----------------------------------	------

Category	(Expressed in SDR Equivalent)	Expenditures to be Financed
(1) Part A of the Project	11,700,000	100% of SMI refinancing
(2) Equipment, vehicles and materials	500,000	100% of foreign expenditures; 100% of local expenditures (ex-factory); and 80% of other local expendi- tures
(3) Training, con- sultants and technical services	3,500,000	100%
	15,700,000	
TOTAL	15,700,000	

2. For the purposes of this Schedule:

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

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

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

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

(b) in respect of payments made for expenditures prior to the date of this Agreement; or

(c) except as the Borrower and the Association shall otherwise agree, on account of expenditures in respect of a Sub-loan if such expenditures shall have been made more than 120 days prior to the date on which NDB shall have received in respect of such Sub-loan the application and information required by Section 2.02 (c) of this Agreement or, in respect of a free-limit Sub-loan, more than 120 days prior to the date on which NDB shall have received in respect of such free-limit Sub-loan the request and information required by Section 2.02 (d) of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower's continuing program to develop small and medium size enterprises through the provision of credit and the improvement of support systems.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objective:

Part A: Sub-loans

A program by NDB through the SMI Fund to refinance Sub-loans by Participating Credit Institutions to small and medium size enterprises.

Part B: NDB and Participating Credit Institution

- (i) Improvement of NDB, the SMI Fund and Participating Credit Institution staff by continuing to develop the capabilities in small and medium enterprises project identification, appraisal and supervision; and
- (ii) Review of the operating system and procedures of the Bank of Ceylon and the Peoples' Bank, and implementation of agreed recommendations arising from such reviews.

Part C: Central Bank of Sri Lanka

Upgrading of banking supervision capabilities.

Part D: Export Promotion and SMI Technical Assistance

- (i) Establishment of a fund for the promotion of exports; and
- (ii) Establishment of a facility to provide funding for technical and management consultancy for small and medium enterprises to improve productivity.

Part E: Trade and Industrial Policy Reform

- (i) Upgrading of Tariff Commission capabilities;
- (ii) Implementation of recommendations flowing from ongoing reviews of selected public manufacturing enterprises;
- (iii) Assistance to the Presidential Commission on Privatization to evaluate alternatives for the privatization of selected public manufacturing enterprises; and
- (iv) Assistance to the Ministry of Finance and Planning to review the proposal to implement a transferable tax credit system, and to extend duty drawback and export credit facilities to indirect exporters.

* * *

The Project is expected to be completed by December 31, 1992.

SCHEDULE 3

Terms for On-lending, Refinancing and Sub-loans

A. Terms for On-lending by Borrower to NDB

- 1. Interest rate : AWPR less a spread of 7% per annum
- 2. Amortization period : 18 years, inclusive of 5 years of grace
- 3. Foreign exchange risk : to be borne by Borrower

B. Terms for Refinancing Sub-loans by NDB

- 1. Interest rate : AWPR less a spread of 6% per annum

2. Amortization period : maximum of 10 years, inclusive of 2 years of grace
 3. Initial Amount of refinancing : up to 75% of amount of each Sub-loan with annual review of utilization
- C. Terms of Sub-loans
1. Interest rate : to be determined by the respective Participating Credit Institution
 2. Amortization period : 3 to 10 years including grace periods of 3 months to 2 years
 3. Maximum size of borrowing enterprise : Rs 4,000,000 in total fixed assets at book value (excluding land and buildings) prior to granting of Sub-loan
 4. Maximum Sub-loan size : Rs 4,000,000 (except as the Association may otherwise determine)
 5. Minimum equity contribution : 25% of Sub-project amount
- D. Adjustment of Terms

The mechanisms for establishing interest rates and spreads for paragraphs A.1 and B.1 above, shall be reviewed on each January 1 and July 1 and, if necessary, adjusted, based on procedures agreed upon between the Borrower and the Association.

The actual rate charged to NDB by the Borrower, and to the Participating Credit Institutions by NDB, shall be amended each January 1 and July 1. The initial interest rates shall be the AWPR in force on the Effective Date less the spreads indicated in paragraphs A.1 and B.1 above. Subsequently the interest rate shall be the average AWPR prevailing over the previous six month period less the spread indicated in paragraphs A.1 and B.1 above.

SCHEDULE 4

Implementation Program

1. For the purposes of carrying out the Project, the Borrower shall:

(a) maintain the Project Coordinating Committee established under the First Agreement and operating under the First and Second Agreements, with such membership and terms of reference as shall be satisfactory to the Borrower and the Association;

(b) cause NDB to maintain the SMI Fund with: (i) an organizational structure satisfactory to the Association; (ii) staff whose numbers, qualifications and experience are satisfactory to the Association; and (iii) accounting procedures and a statement of policies and operating procedures satisfactory to the Association;

(c) cause NDB, from time to time, to provide such additional capitalization funds to the SMI Fund as may be required to meet the operational needs of the SMI Fund, and consult with the Association prior to the appointment of a new General Manager of NDB and prior to making any significant amendments to the policy

statements; and

(d) ensure that the Participating Credit Institutions retain responsibilities satisfactory to the Association for lending to small and medium size industries.

2. The Borrower shall cause NDB to:

(a) apply procedures and criteria satisfactory to the Association in NDB's review of a Sub-project appraisal by a Participating Credit Institution for a Sub-loan to be refinanced by the SMI Fund under the Project;

(b) approve and refinance a Sub-loan on terms and conditions satisfactory to the Association, including those set forth in Schedule 3 to this Agreement; and

(c) cause the Participating Credit Institutions to incorporate simple indicators of economic impact in their Sub-project appraisals including expected fixed costs per job created and the percentage of raw materials of local origin.

3. The Borrower shall cause the Small and Medium Industries Credit Guarantee Scheme of the Borrower's Central Bank to be maintained in form and substance satisfactory to the Association. The Central Bank of Sri Lanka and NDB shall undertake a joint review of the financing and operations of the Credit Guarantee Scheme within two months of the Effective Date with an objective of reviewing the basis for the premium charged, the scope of coverage of guarantee provided and the administrative aspects of the scheme's operation. Findings of the review agreed to with the Association and ADB will be implemented within a time-frame satisfactory to the Association and ADB.

4. The Borrower shall cause NDB to enter into an agreement with each Participating Credit Institution providing for its participation in the Project, on terms and conditions satisfactory to the Association.

5. The Borrower shall cause NDB to lend SMI Fund proceeds to Participating Credit Institutions if the performance of each such Participating Credit Institution satisfies the entry criteria described below:

(a) maintain a minimum Cumulative Principal Collection Ratio of seventy percent (70%) on the portfolio of loans of Participating Credit Institutions refinanced from the SMI Fund;

(b) maintain a minimum Annual Collection Ratio of seventy percent (70%) on the SMI portfolio refinanced by Participating Credit Institutions excluding the portfolio refinanced under the First Agreement, calculated semiannually on a rolling twelve month basis;

(c) maintain a maximum Portfolio Infection Ratio of twenty percent (20%) within the SMI portfolio refinanced by Participating Credit Institutions excluding the portfolio refinanced under the First Agreement; and

(d) employ on Small and Medium Industry activities appropriate levels of operational staff.

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

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

SCHEDULE 5

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

(a) under Part A of the Project, the Borrower shall cause NDB to establish procedures to ensure that: (1) the goods procured locally shall be purchased at reasonable and competitive prices, due account being taken also of other relevant factors such as time of delivery, quality and reliability of the goods and availability of maintenance facilities and spare parts therefor; (2) the contracts for goods estimated to cost the equivalent of \$100,000 or more each shall be awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.55 and 2.56 thereof); and (3) the contracts for goods procured outside the Borrower's territory and estimated to cost \$20,000 equivalent or more shall be awarded through international shopping on the basis of price quotations from at least three independent suppliers; and

(b) under Parts B, C, D and E of the Project, goods shall be procured in accordance with the procurement procedures of the Borrower satisfactory to the Association.

Section II. Employment of Consultants

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

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) 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, provided, however, that payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Association shall have authorized withdrawals from the Credit Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Association shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to SDR 1,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

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

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

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

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

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

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

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

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account (i) was made for any

expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

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

