

CONFORMED COPY

CREDIT NUMBER 2851 ZIM

Development Credit Agreement

(Enterprise Development Project)

between

REPUBLIC OF ZIMBABWE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 30, 1996

CREDIT NUMBER 2851 ZIM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 30, 1996, between REPUBLIC OF ZIMBABWE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) Part B of the Project will be carried out by the Reserve Bank of Zimbabwe (RBZ) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to the RBZ part of the proceeds of the Credit as provided in this Agreement;

(C) the Borrower obtained a grant from the United States of America, acting through the Agency for International Development (AID), in an approximate principal amount equivalent to one million two hundred fifteen thousand dollars (\$1,215,000.00) (the AID Grant) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the AID Grant Agreement) dated June 30, 1995 between the Borrower and AID;

(D) the Borrower obtained a grant from the Norwegian Agency for International Development (NORAD) in an approximate principal amount equivalent to six hundred thousand dollars (\$ 600,000.00) (the NORAD Grant) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the NORAD Grant Agreement), dated September 21, 1994 between the Borrower and NORAD;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE 1

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) "Administrative Secretariat" means the Administrative Secretariat referred to in Part A.2 (e) of Schedule 5 to this Agreement;

(b) "Apex Unit" means the Apex Unit to be established by RBZ pursuant to Section 2.01 (c) of the Project Agreement;

(c) "Banking Act" means the Borrower's Banking Act (Cap. 188), as amended to the date of this Agreement;

(d) "CGA" means the Credit Guarantee Agency to be established by RBZ pursuant to Section 2.01 (e) of the Project Agreement;

(e) "EPZ Authority" means the Export Processing Zone Authority referred to in Part C.6 of the Project which is to be established in accordance with the provisions of paragraph 3 (c) of Schedule 1 to this Agreement;

(f) "Export Finance Guarantee Fund" means the export finance guarantee fund to be established under Part B.3 (ii) of the Project;

(g) "exporter" means an enterprise with fixed assets (excluding land) not exceeding \$500,000 equivalent which: (i) employs not more than 100 people, and (ii) is engaged in production for direct or indirect export; said specified amount and number being subject to change by the Steering Team in consultation with the Association;

(h) "Matching Grant Agreement" means an agreement, satisfactory to the Association, to be entered into between: (i) the Steering Team and an SBAI association pursuant to Part A.1 of the Project; (ii) the ZimTrade Management Team and a private firm pursuant to Part A.2 of the Project; (iii) the Manager of the MM Facility and a private firm pursuant to Part A.3 of the Project; and (iv) the Administrative Secretariat and a PFI under Part C.1 of the Project;

(i) "Matching Grant" means a matching grant to be provided under Parts A and C.1 of the Project;

(j) "MM Facility" means the matchmaking initiative facility included in Part A.3 of the Project;

(k) "MOIC" means the Borrower's Ministry of Industry and Commerce;

(l) "Participation Agreement" means the agreement to be entered into between RBZ and a PFI pursuant to Section 2.01 (d) of the Project Agreement;

(m) "PFI Matching Grant" means a matching grant to be administered under Part C.1 of the Project;

(n) "PFI" means a financial intermediary which has satisfied the Project eligibility criteria and has been certified by the Technical Committee and approved by the Steering Team in accordance with Part A.2 (a) (vi) and 2 (c) of Schedule 5 to this Agreement;

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

(p) "Project eligibility criteria" means the eligibility criteria for the

Project set out in Part G of Schedule 5 to this Agreement;

(q) "Project Implementation Plan" means the project implementation plan referred to in Section 6.01 (e) of, and Part A.1 of Schedule 5 to, this Agreement;

(r) "RBZ" means the Reserve Bank of Zimbabwe established and operating under the Reserve Bank of Zimbabwe Act;

(s) "Reserve Bank of Zimbabwe Act" means the Borrower's Reserve Bank of Zimbabwe Act (Cap. 173), as amended to the date of this Agreement;

(t) "SBAI Administrator" means the administrator referred to in Part A.1 of the Project;

(u) "SBAI association" means an association approved by the Steering Team to participate in Part A.1 of the Project;

(v) "SBAI Matching Grant" means a matching grant to be administered under Part A.1 of the Project;

(w) "SBAI" means the Subsector Business Associations' Initiative referred to in Part A.1 of the Project;

(x) "SEDCO" means the Small Enterprises Development Corporation established and operating under the Small Enterprises Development Corporation Act, 1983, as amended to the date of this Agreement;

(y) "SME Finance Fund" means the SME finance fund to be established by RBZ under Part B.1 of the Project;

(z) "SME Credit Guarantee Fund" means the credit guarantee fund to be established by RBZ under Part B.3 (i) of the Project;

(aa) "SME" means a small- and medium-scale enterprise with fixed assets (excluding land) not exceeding \$200,000 equivalent which employs not more than 50 people, said specified amount and number being subject to change by the Steering Team in consultation with the Association;

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

(ac) "Steering Team" means the Steering Team referred to in Part A.2 (a) of Schedule 5 to this Agreement;

(ad) "Subloan" means a loan or credit made or proposed to be made by a PFI to an SME or exporter for a Subproject out of the equivalent of the proceeds of the Credit relented to the PFI under the Participation Agreement;

(ae) "Subproject" means a specific development project to be carried out by an SME or exporter utilizing the proceeds of a Subloan;

(af) "Subsidiary Financing Agreement" means the agreement to be entered into between the Borrower and RBZ pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Financing Agreement;

(ag) "Technical Committee" means the technical committee of the Steering Team referred to in Part A.2 (c) of Schedule 5 to this Agreement;

(ah) "Zimbabwe Dollar" or the sign "Zim\$" means the currency of the Borrower; "ZimTrade" means the trade promotion organization established in 1991 and referred to in Part A.2 of the Project;

(ai) "ZMGS Management Team" means the management team referred to in Part A.3 (a) of Schedule 5 to this Agreement;

(aj) "ZMGS Matching Grant" means a matching grant to be administered under

Part A.2 of the Project; and

(ak) "ZMGS" means the ZimTrade Matching Grant Scheme referred to in Part A.2 of the Project.

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 forty seven million five hundred thousand Special Drawing Rights (SDR 47,500,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) by the Borrower or RBZ on account of withdrawals made by an SME or an exporter under a Subloan to meet the reasonable cost of goods and services required for the Subproject in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A and C of 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 two special deposit accounts in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure or attachment. The first of the Special Accounts (First Special Account) shall be used exclusively for Part B of the Project, and the second Special Account (Second Special Account) shall be used exclusively for Parts A and C of the Project. Deposits into, and payments out of, a Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002 or such later date as the Association shall establish. The Association shall promptly notify the Borrower and RBZ 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 canceled; 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 April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1, commencing October 1, 2006, and ending April 1, 2036. Each

installment to and including the installment payable on April 1, 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 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. RBZ is, with respect to Part B of the Project, 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, or cause to be carried out, Parts A and C of the Project with due diligence and efficiency and in conformity with appropriate, administrative, technical and financial practices.

(b) Without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause RBZ to perform in accordance with the provisions of the Project Agreement all the obligations of RBZ therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable RBZ to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out, or cause to be carried out, Parts A and C of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(d) The Borrower shall make the proceeds of the Credit allocated from time to time to Category (1) of the table in paragraph 1 of Schedule 1 to this Agreement available to RBZ under a subsidiary financing agreement to be entered into between the Borrower and RBZ under terms and conditions which shall have been approved by the Association, including provisions requiring:

(i) periodic transfers by RBZ to the SME Credit Guarantee Fund and the Export Finance Guarantee Fund of amounts of principal and interest received from PFIs by way of payments and repayments under Subloans; and

(ii) an administration fee, to be retained by RBZ from amounts received from the PFIs under Subloans, equivalent to one half of one percent of the average outstanding balance of Subloans.

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

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Parts A and C of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 6 to this Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part B of the Project shall be carried out by RBZ pursuant to Section 2.04 of the Project Agreement.

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

(a) prepare, on the basis of guidelines acceptable to the Association, 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 for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts 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, 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 and 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 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 expenditures 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) RBZ shall have failed to perform any of its obligations under the Project Agreement;

(b) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that RBZ will be able to perform its obligations under the Project Agreement;

(c) the Reserve Bank of Zimbabwe Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of RBZ or its ability to carry out Part B of the Project or to perform any of its obligations under the Project Agreement;

(d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of RBZ or for the suspension of its operations; and

(e) (i) subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project (including the AID Grant and the NORAD Grant) shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such 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 and RBZ;

(b) any event specified in paragraph (c) or (d) of Section 5.01 of this Agreement shall occur; and

(c) any event specified in paragraph (e) (i) 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 Borrower has established the Administrative Secretariat in accordance with the provisions of Part A.2 (c) of Schedule 5 to this Agreement;

(b) the Borrower has employed the SBAI Administrator referred to in Part A.1 of the Project;

(c) the Borrower has established the ZMGS Management Team in accordance with the provisions of Part A.3 (a) of Schedule 5 to this Agreement;

(d) RBZ has established the Apex Unit in accordance with the provisions of Section 2.01 (c) of the Project Agreement and has furnished to the Association operating procedures satisfactory to the Association for the Apex Unit;

(e) the Borrower has furnished to the Association a project implementation plan in form and substance satisfactory to the Association;

(f) the Borrower has furnished to the Association operational guidelines satisfactory to the Association for SBAI, ZMGS and the MM Facility;

(g) the Subsidiary Financing Agreement has been entered into by the Borrower and RBZ;

(h) at least one financial intermediary has been certified and approved in accordance with Part A 2(a)(vi) and 2(c) of Schedule 5 to this Agreement for participation in the Project and RBZ has entered into a Participation Agreement with the said financial intermediary; and

(i) the Borrower has furnished to the Association guidelines for evaluating financial institutions, satisfactory to the Association, which are consistent with the Project eligibility criteria.

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

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

(b) that the Subsidiary Financing Agreement has been duly authorized or ratified by, and is legally binding upon, the Borrower and RBZ 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

Representative of the Borrower; Addresses

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

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

For the Borrower:

The Senior Secretary
Ministry of Finance
Private Bag 7705
Causeway, Harare
Zimbabwe

Cable address:

MINFIN
Harare

Telex:

MINFIN 22141 ZW
Zimbabwe

For the Association:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable address:

INDEVAS
Washington, DC.

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.

REPUBLIC OF ZIMBABWE

By /s/ Herbert Murerwa

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Subloans	40,000,000	100% of amounts disbursed
(2) Matching Grants:		100% of amounts disbursed
(a) PFI	300,000	
(b) Other items	2,900,000	
(3) Goods under Parts A and C Project	50,000	100% of foreign expenditures, 100% of the of local expenditures (ex-factory cost) and 90% of local ex- penditures for other items procured locally
(4) Training and consultant's services under Parts A and C of the Project:		100%
(a) EPZ Authority	75,000	
(b) SEDCO	100,000	
(c) Other items	2,325,000	
(5) Unallocated	1,750,000	
	<hr/>	
TOTAL	47,500,000 =====	

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 Subloan unless the Subloan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in the Schedule to the Project Agreement;

(b) in respect of expenditures under Category (2) (a) unless the Borrower has furnished to the Association guidelines satisfactory to the Association for the administration of the Matching Grants available to PFIs under Part C.1 of the Project;

(c) in respect of expenditures under Category (4) (a) unless the Borrower has established the EPZ Authority in a form and with functions and staffing satisfactory to the Association;

(d) in respect of expenditures under Category (4) (b) unless the Borrower has furnished to the Association a plan satisfactory to the Association for the strengthening of SEDCO's financial administration and strategic focus; and

(e) in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for goods, works and services under contracts not exceeding an amount equivalent to: (i) \$100,000 for goods, the employment of consulting firms and training, and (ii) \$50,000 for the employment of individual consultants, 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 in financing such productive facilities and resources in the territory of the Borrower as will contribute to the economic and social development of the Borrower including increases in employment.

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

Part A: The Business Services Component

1. The carrying out by an SBAI Administrator satisfactory to the Association of a subsector business associations initiative for a three year period aimed at nurturing the development of service-oriented subsector business associations, including: (i) the provision to the SBAI associations, under agreements to be entered into between the Steering Team and the SBAI associations, of direct support in the preparation of a business plan for the SBAI associations up to a maximum amount of \$10,000 equivalent; and (ii) the provision to any such SBAI association of Matching Grants on (A) a 25:75 cost sharing basis to cover the costs of delivery of sound technical programs, and (B) a 50:50 cost sharing basis to cover the costs of employing for a period of 12 months a staff person specialized in the concerns of the relevant subsector.

2. The carrying out by the ZMGS Management Team of the ZimTrade Matching Grant Scheme to support private firms, through:

(a) measures to stimulate (i) the use by such firms of foreign and domestic export support services, and (ii) travel by managers of firms wishing to enhance their skills, know-how, information and contacts in the international marketplace;

(b) assisting such firms to prepare firm-level plans aimed at enhancing their competitiveness;

(c) upgrading, extension and strengthening of the current Export Promotion for Support Services Program offered by ZimTrade; and

(d) demonstrating to private firms the benefits of accessing external sources of information and know-how.

3. Establishment and operation by the Steering Team of a foreign-domestic matchmaking initiative facility to build the export capabilities of Zimbabwean firms including performance-based payments on a 50:50 cost sharing basis for the use by individual enterprises for purposes of this Part A.3 of the Project

Part B: The Financing Component

1. The establishment, and management, by RBZ of an SME finance fund for the purposes of making Subloans to SMEs for permanent working capital and investment.

2. The establishment, and management, by RBZ of an export finance fund for the purposes of making Subloans for pre-and post-shipment export financing to exporters with restricted access to credit.

3. Provision of guarantees for Subloans made to SMEs and exporters through the establishment and management by CGA of: (i) an SME Credit Guarantee Fund, and (ii) an

Export Finance Guarantee Fund.

Part C: Institutional Development Component

1. Strengthening the capacity of the PFIs to appraise Subprojects and to make Subloans to SMEs and exporters, including the provision of Matching Grants.
2. Strengthening the management and operations of SEDCO including its financial administration and strategic focus.
3. (a) Strengthening the capacity of RBZ to regulate and supervise financial institutions, through: (i) the provision to RBZ of technical advisory services for the training of RBZ's staff in (A) on-site inspection procedures and practices, (B) off-site analysis, and (C) the development of implementing regulations and circulars under the Banking Act; and (ii) acquisition for RBZ of computer equipment.

(b) Strengthening the capacity of RBZ to operate and manage the Apex Unit and CGA in carrying out their functions under the Project.
4. Strengthening the capacity of the Administrative Secretariat to carry out its functions under the Project including the provision of technical advisory services and necessary office equipment.
5. Strengthening the administration and operations of the Borrower's Customs and Excise Department through: (i) assisting the said Department in the automation and administration of inward processing rebate and duty drawback provisions; (ii) the establishment and publication of standard input-output coefficients pretabulated for key manufacturing export items; and (iii) the preparation of regulations and guidelines for the implementation of a Common bonded Manufacturing Warehouse Scheme.
6. Strengthening the administration and management of the EPZ Authority.
7. Strengthening the administration and operations of MOIC to enhance its capacity to carry out its functions under the Project, including (i) the acquisition of computers for MOIC; and (ii) training of staff of MOIC in financial management, strategic planning and interaction with the multilateral community.

* * *

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Modifications of the General Conditions

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

- (1) the last sentence of Section 3.02 is deleted;
- (2) the second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawal shall be made: (a) on account of expenditures in the currency of any country which is not a member of the Association 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."; and

- (3) the following subparagraph is added to Section 2.01:

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

- (4) 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 canceled" set forth at the end of Section 6.03 are deleted and the following words are substituted therefor:

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

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means with respect to: (i) the First Special Account, Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and (ii) the Second Special Account, Categories (2), (3) and (4) set forth in said Schedule;

(b) the term "eligible expenditures" means with respect to: (i) Parts A and C of the Project, expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and (ii) Part B of the Project, expenditures in respect of the reasonable cost of goods and services required for Subprojects and to be financed out of the proceeds of the Credit allocated from time to time to Category (1) in accordance with the provisions of Schedule 1 to this Agreement; provided, however, that notwithstanding the provisions of paragraph 1 of Part A of the Schedule to the Project Agreement, payments for expenditures to be financed out of the proceeds of Subloans may be made out of the First Special Account before the Association shall have authorized withdrawals from the Credit Account in respect thereof. Such expenditures shall have qualified as eligible expenditures only if the Association shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, equivalent in the case of: (i) the First Special Account to \$4,000,000, and (ii) the Second Special Account to \$500,000; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to: (A) \$2,000,000 in the case of the First Special Account, and (B) \$250,000 in the case of the Second Special Account 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: (i) SDR 8,000,000 in the case of the First Special Account; and (ii) SDR 1,000,000 in the case of the Second Special Account.

2. Payments out of a 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 a 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 which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of a 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 of the Special Account for eligible expenditures.

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

4. For each payment made by the Borrower out of a 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 a 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 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 a 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 paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 5

Implementation Program

Part A. General Provisions

1. The Borrower shall carry out, or cause to be carried out, Parts A and C of the Project in accordance with the procedures set out in the Project Implementation Plan, and, except as the Association shall otherwise agree, the Borrower shall not amend, abrogate or waive any provision thereof which, in the opinion of the Association, may materially and adversely affect the carrying out of the Project.

2. (a) The Borrower shall maintain in a form and with functions and staffing satisfactory to the Association a Steering Team to be responsible, inter alia, for:

(i) monitoring the overall execution of the Project, including responsibility for reviewing the execution of individual components of the Project and recommending any modifications in Project design and execution;

(ii) the appointment of the staff (including consultants) to assist in Project management in accordance with the provisions of Section II of Schedule 6 to this Agreement;

(iii) the approval of SBAI Matching Grants and other performance-based incentives in excess of \$30,000 equivalent or such other amount as the Steering Team may, in consultation with the Association, determine;

(iv) review of business plans and support programs of any SBAI association, after such SBAI association has made expenditures in an aggregate amount of \$35,000 equivalent (or such other amount as the Steering Team and the Association may from time to time determine);

(v) confirmation of the eligibility of an SBAI association for any subsequent \$35,000 tranche support; and

(vi) the approval, subject to the provisions of subparagraph (c) of this paragraph and after prior consultation with the Association, of financial intermediaries according to the Project eligibility criteria.

(b) The Steering Team may, with the prior agreement of the Association, form such committees of the Steering Team as it may consider necessary to assist it in carrying out of its functions under the Project.

(c) The Borrower shall establish and thereafter maintain in a form satisfactory to the Association a Technical Committee of the Steering Team. The members of the Technical Committee shall be appointed by the Steering Team. The Technical Committee shall be responsible for certifying the eligible financial intermediaries, according to the Project eligibility criteria, on the basis of the results of evaluations carried out for this purpose by external auditors satisfactory

to the Association.

(d) The Steering Team shall, subject to such changes in membership as the Borrower and the Association may from time to time determine, consist of:

- (i) a Chairman who shall be the Permanent Secretary of MOIC;
- (ii) the Permanent Secretary of the Ministry of Finance;
- (iii) the Governor of the Reserve Bank of Zimbabwe;
- (iv) the Head of Planning, National Economic Planning Commission;
- (v) the Chief Executives of (A) the Zimbabwe Investment Centre, (B) ZimTrade, (C) the Confederation of Zimbabwe Industries, (D) the Zimbabwe National Chamber of Commerce, and (E) the Bankers Association of Zimbabwe;

(vi) a representative nominated by the indigenous business community; and

(vii) such other persons as any of the above members of the Steering Team shall, when unable to attend the meetings of the Steering Team, designate to represent that member.

(e) The Borrower shall establish and thereafter maintain in a form and with functions and staffing satisfactory to the Association an administrative secretariat to be responsible, inter alia, for:

(i) reporting to the Steering Team on progress in carrying out Parts A and C of the Project;

(ii) ensuring that the provisions of this Agreement and guidelines established thereunder are observed with respect to the carrying out of consultant services under the Project;

(iii) reviewing and transmitting to the Association approvals of the Steering Team granted under the Project;

(iv) preparing (A) the agenda of meetings of the Steering Team, and (B) quarterly reports of the Project for the Steering Team and the Association;

(v) overseeing, with respect to the Borrower's Customs and Excise Department and EPZ Authority, the carrying out of Part C.5 and C.6 of the Project;

(vi) administering the PFI Matching Grants under Part C.1 of the Project;

(vii) overseeing the process under which PFIs are certified as eligible to participate in Part B of the Project;

(viii) the carrying out of Part C.1 to C.4 of the Project; and

(ix) ensuring the effective promotion of Project activities and programs.

(f) The Administrative Secretariat shall, in the exercise of its responsibilities, report to the Steering Team. The Administrative Secretariat shall consist of a Unit Head and two assistants.

3. (a) The Borrower shall establish and thereafter maintain, in a form and with functions and staffing satisfactory to the Association, a management team to carry out the ZimTrade Matching Grant Scheme under Part A.2 of the Project.

(b) The ZMGS Management Team shall consist of two qualified and competent full-time Zimbabwean staff and such external advisers (employed in accordance with the provisions of Section II of Schedule 6 to this Agreement) as shall be required to provide the necessary technical support to the ZMGS Management Team. One of the said Zimbabwean staff shall be the leader of the ZMGS Management Team.

4. (a) The Borrower shall jointly with RBZ and the Association carry out, not later than June 30, 1999, a mid-term review of the progress made in carrying out the Project. The review shall, inter alia, assess:

(i) the progress made in carrying out the various components of the Project, including compliance with financial, audit and other covenants relating to the Project;

(ii) the performance of PFIs, consultants and other Project agencies;

(iii) the progress of Project monitoring indicators agreed with the Association; and

(iv) any corrective measures that need to be taken including changes, if any, in the scope and content of the Project.

Part B: Matching Grants administered under Part A.1 of the Project

1. For an SBAI association to be eligible for an SBAI Matching Grant, it must:

(i) allow firms which are not members of the SBAI association to participate in programs to be funded out of the proceeds of any SBAI Matching Grant;

(ii) actively market such a program to such firms; and

(iii) offer to carry out any program to be funded from the proceeds of an SBAI Matching Grant in cooperation with any other SBAI associations carrying out activities similar to those in the program, or allow willing members of the other SBAI associations to participate in the said program.

2. Each SBAI association shall be required to contribute: (i) 25% of the costs of an eligible program to be funded from an SBAI Matching Grant; and (ii) 50% of the costs of employing a staff person. Any such Matching Grant shall not exceed an aggregate amount of \$100,000 equivalent for any one SBAI association, said amount being subject to modification by the Steering Team in consultation with the Association.

3. The SBAI Administrator shall be responsible for approving SBAI Matching Grants up to an amount equivalent to \$30,000, said amount being subject to modification by the Steering Team in consultation with the Association.

Part C: MM Facility Administered under Part A.3 of the Project

1. The MM Facility shall be extended to a private firm in amounts not exceeding: (i) \$10,000 equivalent to finance 100% of the costs of one mission to Zimbabwe undertaken by a potential matchmaker or a potential foreign collaborator participating in the MM Facility program; and (ii) \$50,000 equivalent to finance 50% of the costs specified in the contract for foreign-domestic collaboration under the MM Facility less the amount of any payments made under item (i) of this paragraph. The amounts specified in this paragraph shall be subject to change by the Steering Team in consultation with the Association.

2. For a private firm to qualify for an MM Facility support covering travel costs, it shall submit an application to the manager of the MM Facility: (i) describing the proposal to be financed out of proceeds of the MM Facility; (ii) specifying the estimated expenditures to be financed out of the first installment of such facility; (iii) a summary description of the proposed visit, including firms and enterprises to

be visited; (iv) an outline of the collaboration activities to be carried out during the visit; and (v) such other information as the said manager shall reasonably request.

3. For a private firm to qualify for an MM Facility support covering the costs specified in a contract for foreign-domestic collaboration under the MM Facility, it shall: (i) submit an application to the manager of the MM Facility describing (A) the participating collaborators, and (B) the type of collaboration envisaged by the said firm, namely, whether the intended collaboration is to be one of joint venture, 100% foreign direct investment, or a technical/marketing agreement, licensing agreement, or international subcontracting; (ii) furnish to the manager the relevant contract evidencing the details of the collaboration; and (iii) such other documentation as the manager shall reasonably request.

Part D: Matching Grants Administered under Part A.2 of the Project

1. (a) All private firms in manufacturing, agro-processing and exportable services sector shall be eligible to apply for ZMGS Matching Grants which shall be made on a "first-come, first-served" basis.

(b) For an applicant to qualify for a ZMGS Matching Grant, it must: (i) have a plan for building international competitiveness; (ii) be prepared to contribute from its own resources 50% of the funds required to carry out the plan; (iii) incorporate in the plan's design, features enabling the plan's outputs to be measured and verified; (iv) furnish sufficient evidence showing that the activity to be financed from the ZMGS Matching Grant is likely to strengthen and improve the firm's performance under its business plan; and (v) furnish with its application such other evidence as the Steering Team shall, with the prior agreement of the Association, reasonably request.

2. (a) A ZMGS Matching Grant shall not be made to any one firm in an aggregate amount exceeding \$100,000 equivalent; said amount being subject to modification by the Steering Team in consultation with the Association.

(b) No services to be performed by ZimTrade for any firm to which a ZMGS Matching Grant is to be made shall be eligible for financing out of the proceeds of the ZMGS Matching Grant.

3. (a) The Steering Team shall approve: (i) each proposal for a ZMGS Matching Grant in an amount exceeding \$50,000 equivalent; and (ii) all proposals for ZMGS Matching Grants referred to it by the ZMGS Management Team. The Steering Team may, with the prior agreement of the Association, modify the procedures described in this paragraph for the approval of ZMGS Matching Grants.

(b) The ZMGS Management Team shall have authority to approve each ZMGS Matching Grant in an amount of \$50,000 equivalent or less; provided that any such proposal shall require: (i) the joint approval of the ZMGS Management Team Leader and the technical adviser to the Project if in an amount of \$30,000 equivalent or less; and (ii) the joint approval of the ZMGS Management Team Leader, the technical adviser to the Project as well as the Chief Executive of ZimTrade if in an amount of more than \$30,000 equivalent; provided further that the ZMGS Management Team shall refer to the Steering Team, for the Steering Team's decision, all proposals for ZMGS Matching Grants on which joint approvals required under this subparagraph cannot be reached. ZMGS Matching Grants shall be made available to firms on a reimbursable basis.

4. The contributions of a firm to the costs of a program to be financed out of proceeds of a ZMGS Matching Grant shall be 50% of the value of the services financed out of the ZMGS Matching Grant.

Part E: PFI Matching Grants Administered under Part C.1 of the Project

1. The Administrative Secretariat shall be responsible for the administration of PFI Matching Grants.

2. In order to qualify for a PFI Matching Grant, a PFI shall furnish to the Administrative Secretariat a training program which shall set forth in such detail as the Administrative Secretariat shall reasonably request: (i) the number of activities

(i.e. workshops, on the job training, site visits, courses attended) to be carried out with the PFI Matching Grant, (ii) the number of the PFI's staff to be trained for each such activity, (iii) details of trainers and their sources, (iv) estimated cost for each training event (including staff training event), and (v) and the expected results and benefits of said activities.

3. The contribution to be made by a PFI shall be 50% of the costs of a proposal to be funded by any such PFI Matching Grant.

Part F: Provisions relating to Matching Grants Generally

1. Matching Grants shall be made on terms whereby the Borrower, acting through the SBAI Administrator, ZimTrade or the Administrative Secretariat, as the case may be, shall obtain, by written contract with the PFI or by other appropriate legal means, rights adequate to protect the interests of the Association and the Borrower, including to the extent that it shall be appropriate the right to:

(a) require the enterprise or PFI to carry out the proposal or program to be financed out of proceeds of the matching grant with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) any goods and services to be financed out of the proceeds of the Credit shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the proposal or program;

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

(d) require that: (i) the enterprise or PFI 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 enterprise or PFI to replace or repair such goods;

(e) obtain all such information as the Association or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the enterprise or PFI and to the benefits to be derived from the proposal or program; and

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

Part G: Project Eligibility Criteria for the Participation of PFIs under Part B of the Project

1. (a) The Steering Team with the assistance of external auditors and in consultation with the Association shall be responsible for qualifying financial intermediaries on the basis of an evaluation of the solvency, financial position and intermediation capacity of the applicant financial intermediary.

(b) Participation in the Project shall be open to all financial intermediaries licensed under the Banking Act as well as to SEDCO, the Zimbabwe Development Bank and such other institutions or organizations meeting the criteria of solvency, sound financial position and intermediation capacity as the Steering Team, in consultation with the Association, shall allow to participate in the Project.

(c) Financial intermediaries shall be evaluated in accordance with the

information and criteria set out in paragraphs 2 and 3 of this Part.

(d) Financial intermediaries shall be certified for initial participation in the Project and re-certified annually for continued participation in the Project. The certification procedures shall be as follows:

(i) Financial intermediaries wishing to participate in the Project shall contract for an evaluation of the financial intermediary to be carried out by external auditors in accordance with the Project eligibility criteria;

(ii) Financial intermediaries shall furnish, together with the said application, the information described in paragraph 2 of this Part; and

(iii) the external auditors, after evaluation of the said information, shall furnish the Steering Team and the Association, through the Steering Team, with a written report as to the extent to which the financial intermediaries concerned has complied with the Project eligibility criteria.

(e) The Steering Team shall have the right to revoke the certification to participate in the Project of any PFI found not to be in full compliance with the Project eligibility criteria or the provisions of the Banking Act and any enactment and prudential regulations relating thereto.

2. Financial intermediaries applying to participate in the Project shall be required to furnish to the auditors, the Steering Team and the Association the following written information:

(a) annual audited financial statements prepared in accordance with generally accepted accounting principles; provided that with regard to new institutions detailed financial projections satisfactory to the Steering Team may be accepted;

(b) unqualified opinion from external auditors, or if qualified, satisfactory explanation and action plan from the financial intermediary for remedying the situation;

(c) a special eligibility assessment conducted by external auditors according to the criteria set forth in paragraph 3 of this Part; and

(d) such other information as the Steering Team, RBZ or the Association shall reasonably request.

3. (a) The Project eligibility criteria to be applied by the external auditors in the evaluation of the performance of financial intermediaries shall be as follows:

(i) management: a review of the financial management of the institution including its credit controls, planning mechanisms, staffing and information systems;

(ii) capital adequacy: an assessment of whether (where applicable) the financial intermediaries risk-weighted capital-adequacy is in compliance with guidelines laid down by RBZ;

(iii) loan and other asset quality: an assessment of the risk profile of loans and other assets and the sufficiency of capital to cover such risks;

(iv) collection ratio: the auditors shall consider whether the collection ratio is sufficient to avoid erosion of the inflation adjusted net worth of the financial intermediary;

(v) earnings performance: the auditors shall consider whether net income, adjusted for inflation (as determined by the Consumer Price Index), provides a positive return on equity with realistic provisions for expected losses;

(vi) liquidity position: the auditors shall indicate whether the financial intermediary has a sound liquidity position and liquidity management systems and shall also assess: (A) frequency and level of liquidity support from RBZ; (B) frequency of borrowings from the inter-bank market; (C) the relationship between new commitments for loans and investments and the resources available to finance such commitments; and (D) liquidity maintained to meet maturing obligations (operating expenses and debt-servicing liabilities);

(vii) foreign exchange position: the auditors shall assess whether the financial intermediary has a proper foreign exchange risk monitoring and control system in place as stated in RBZ's guidelines; and

(viii) intermediation capacity: the auditors shall review the capacity of the prospective PFI to effectively initiate, appraise, process, monitor and supervise subloans to SMEs and exporters.

(b) The Project eligibility criteria set out in this Part of this Schedule shall be subject to such changes as the Steering Team in consultation with the Association may determine.

4. (a) Financial intermediaries applying for loan or credit facilities under the Project shall be certified or re-certified by the Steering Team as fully eligible, partially eligible or not eligible to participate in the Project.

(b) Where: (i) there are deficiencies on the part of any such financial intermediary in meeting the guidelines set out in paragraph 3 of this Part, and (ii) the financial intermediary has furnished to the Steering Team an action plan satisfactory to the Steering Team for remedying the deficiencies, the Steering Team shall certify the financial intermediary as partially eligible to participate in the Project.

(c) Financial intermediaries certified as partially eligible to participate in the Project shall be eligible to borrow under the Project the lesser of the following amounts, that is to say: (i) 10% of the net capital and reserves of the financial intermediary; or (ii) 5% of the total amount of the SME Finance Fund or the Export Finance Fund, said levels of borrowing being subject to modification by the Steering Team in consultation with the Association.

SCHEDULE 6

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: General

Goods required for Parts A and C of the Project (other than goods to be financed under matching grants) shall be procured in accordance with the provisions of Section I of the "Guidelines under IBRD Loans and IDA Credits" published by the Bank in January 1995 (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 required for Parts A and C of the Project 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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost \$100,000 equivalent or less per contract and \$200,000 equivalent or less in the aggregate may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost \$30,000 equivalent or less per contract and \$100,000 equivalent or less in the aggregate may, with the Association's prior agreement, 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.

3. Procurement under Matching Grants

The provisions of Part E of Schedule 5 to this Agreement shall apply to the procurement of goods, works and services to be financed out of proceeds of matching grants made under Parts A and C.1 of the Project.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid 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 shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract for goods 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 required for Parts A and C of the Project shall be procured under contracts awarded under 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 Consultants Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed to by the Bank. Where no relevant contract documents have been issued by the Bank, other standard forms acceptable by the Bank 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 \$50,000 equivalent each.

3. However, said exemptions to prior Association review shall not apply to:(i) the terms of reference for such contracts, (ii) single-source selection of consulting firms, (iii) assignments of a critical nature, as reasonably determined by the Association, (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, (v) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

