

CONFORMED COPY

CREDIT NUMBER 1990 MAI

(Energy I Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 30, 1989

CREDIT NUMBER 1990 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 30, 1989, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) The Borrower intends to obtain from the Republic of Austria (Austria) a loan (the Austrian Loan) in an amount of approximately two hundred thirty-five million (S235,000,000) schillings to assist in financing Part A of the Project on the terms and conditions set forth in an agreement (the Austrian Loan Agreement) to be entered into between the Borrower and Austria;

(C) Part A, Part B and Part C of the Project will be carried out by the Electricity Supply Commission of Malawi (ESCOM) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to ESCOM part of the proceeds of the

Credit as provided in this Agreement; and

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

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

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

(c) "MFNR" means the Borrower's Ministry of Forestry and Natural Resources;

(d) "FD" means the Forestry Department within MFNR;

(e) "EPU" means the Borrower's Energy Planning Unit;

(f) "ESCOM" means the Electricity Supply Commission of Malawi, established pursuant to the Electricity Act of 1963, Cap 73:01 of the Laws of Malawi;

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

(h) "Special Account B" means the account referred to in Section 2.02 (c) of this Agreement;

(i) "Kwacha" means the currency of the Borrower;

(j) "tambala" means one hundredth of a Kwacha; and

(k) "Project Preparation Advances" means the project preparation advances granted by the Association to the Borrower pursuant to an exchange of letters, dated September 30, 1988 and October 15, 1988, between the Borrower and the Association.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirty-four million eight hundred thousand Special Drawing Rights (SDR 34,800,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of Parts A, B and C of the Project, open and maintain in dollars a special account in a commercial 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 4 to this Agreement.

(c) The Borrower shall for the purposes of Parts D, E and F of the Project open and maintain in dollars a special account on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 1994, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue:

- (i) from a date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and
- (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988, shall be applied as of July 1, 1988.

(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 April 1, 1999, and ending October 1, 2028. Each installment to and including the installment payable on October 1, 2008, 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 (5) 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. ESCOM 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 in respect of Part A, Part B and Part C of the Project.

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 Parts D, E and F of the Project, through MFNR and EPU, with due diligence and efficiency and in conformity with appropriate administrative, financial, forestry development and management practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause ESCOM to perform in accordance with the

provisions of the Project Agreement all the obligations of ESCOM 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 ESCOM to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) The Borrower shall relend an amount not exceeding the equivalent of thirty-one million nine hundred thousand dollars (\$31,900,000) from the proceeds of the Credit to ESCOM under a subsidiary loan agreement to be entered into between the Borrower and ESCOM, under terms and conditions which shall have been approved by the Association which shall include repayment of principal over a period of twenty (20) years including a grace period of five (5) years, the payment of interest at the rate of 7.65% per annum and the foreign exchange risk to be borne by ESCOM.

(d) The Borrower shall exercise its rights under the Subsidiary Loan 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 Loan Agreement or any provision thereof.

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

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A, Part B and Part C of the Project shall be carried out by ESCOM pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall furnish to the Association for its review and comments, all proposals for major reforms of ESCOM, and shall take into consideration the Association's views prior to implementing any such reform.

Section 3.05. The Borrower shall, until the completion of the Project:

(a) annually consult with the Association and ESCOM on ESCOM's investment program; and

(b) not cause ESCOM to undertake any capital investment in excess of five million dollars (\$5,000,000) equivalent for any individual project in the power sub-sector unless the technical and economic justification of such project is satisfactory to the Association.

Section 3.06. The Borrower shall take all measures necessary to conclude, or to enable ESCOM to conclude, by not later than December 31, 1989, appropriate financing agreements for the construction by ESCOM of the 132 kV line from Nkula to Lilongwe.

Section 3.07. (a) EPU shall be responsible for coordinating the implementation of Part D, Part E and Part F of the Project.

(b) With the assistance of consultants, FD shall be responsible for the implementation of Part D and Part E of the Project, and EPU shall implement Part F of the Project.

(c) FD shall continue to maintain a coordinator with qualifications, experience and terms of reference satisfactory to the Association.

Section 3.08. Unless the Borrower and the Association shall otherwise agree, the Borrower shall take all Governmental action necessary to make regular increases in the royalty charged per cubic meter of wood cut from trees on customary lands for commercial purposes, in forestry reserves and on Government plantations, to ensure that such royalty shall, by not later than December 31, 1994, be equal to at least the cost, including a reasonable return on investment, of wood production by commercial enterprises, as determined from time to time by the Borrower, in consultation with the Association.

Section 3.09. In order to encourage farmers to plant more trees, the Borrower shall provide farmers, who register their seedlings with FD, an incentive payment of five tambala, or such other amount as may be agreed upon by the Borrower and the Association from time to time, for each tree which shall have survived two years after planting.

Section 3.10. Approximately two years after the Effective Date, or on such later date as may be agreed upon by the Borrower and the Association, the Borrower and the Association shall carry out a joint review to determine the progress made in the achievement of the objectives of Part E of the Project and to determine any modifications that may be necessary to achieve such objectives.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect, in accordance with sound accounting practices the operations, resources and expenditures, in respect of Part D, Part E and Part F of the Project, of the departments or agencies of the Borrower responsible for carrying out Part D, Part E and Part F of 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 Special Account B 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 nine 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 expenditures, 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) ESCOM shall have failed to perform any of its obligations under the Project Agreement.

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

(c) The Electricity Act of 1963, Cap 73:01 of the Laws of Malawi shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ESCOM 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 ESCOM or for the suspension of its operations.

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

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

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

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and ESCOM; and

(b) the Association has been notified by Austria that all conditions precedent to the initial disbursement of the Austrian Loan have been fulfilled.

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 ESCOM, and is legally binding upon ESCOM in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and ESCOM and is legally binding upon the Borrower and ESCOM 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 3.04 of this Agreement and the provisions of paragraphs (a) and (b) of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty 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 Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Cable address:

FINANCE
Lilongwe

Telex:

44407

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.

REPUBLIC OF MALAWI

By /s/ Robert B. Mbaya

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael Gillette
Acting 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) Civil works:		
(a) under Part A of the Project	10,180,000	100% of foreign expenditures
(b) under Part E of the Project	2,150,000	100%
(2) Electrical, mech- anical and trans- mission equip- ment under Part A and Part B of the Project	7,510,000	100% of foreign expenditures
(3) Vehicles, machinery, equipment, office furniture and mate- rials:		
(a) under Part D of the Project	20,000	100% of foreign expenditures and 90% of local expenditures
(b) under Part E of the Project	1,780,000	100%

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(4) Office equipment, including training, under Part C.1 of the Project	260,000	100% of foreign expenditures
(5) Workshops, studies, training and tech- nical assistance under Part E of the Project	970,000	100%

(6)	Studies under Part C.2 of the Project	190,000	100% of foreign expenditures
(7)	Incentive payments and seed money under Part E of the Project	690,000	100%
(8)	Operating costs:		
	(a) under Part E of the Project	2,210,000	100%
	(b) under Part D of the Project	40,000	100% of foreign expenditures and 90% of local expenditures
(9)	Wages for temporary labor under Part E of the Project	560,000	100%
		Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(10)	Consultants' services:		100% of foreign expenditures and 80% of local expenditures
	(a) under Part A.3 of the Project, including engineering training	3,050,000	
	(b) under Part D of the Project	110,000	
	(c) under Part F of the Project	330,000	
(11)	Refunding of Project Preparation Advances	1,110,000	Amount due pursuant to Section 2.02 (d) of this Agreement
(12)	Unallocated	3,640,000	
	TOTAL	34,800,000	

2. For the purposes of this Schedule:

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

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

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

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

(b) payments made for expenditures in respect of Categories 1 (a), 2, 4, 6 and 10 (a), unless ESCOM has appointed a project manager for Part A, Part B and Part C of the Project pursuant to Section 3.04 of the Project Agreement; and

(c) payments made for expenditures in respect of Category 10 (c) unless the Borrower has filled the vacant positions of principal economist and senior economist for EPU.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to formulate and implement an integrated program to make the most economic use of Malawi's energy resources through the implementation of:

- (a) a least cost power development plan; and
- (b) a comprehensive strategy for the management of wood energy on a cost-effective and environmentally sustainable basis.

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: Tedzani III Hydroelectric Power Scheme:

1. Construction of an additional intake structure at Tedzani III, a 1052 m headrace tunnel and surge chamber, a reinforced concrete box structured power house, a tailrace outlet system and installation of two Francis turbines coupled to two 25MW generators and associated electromechanical equipment, switchyard, the System Control and Data Acquisition (SCADA) and Power Line Carrier (PLC) systems and construction of a 132 kV transmission link to Nkula B;

2. construction of a 132/66kV substation at Blantyre West; and

3. engineering services for the design and supervision of the power scheme, including engineering training.

Part B: Generation Rehabilitation:

1. Improving the reliability of Tedzani I and Tedzani II through modification of the cooling system.

2. Acquisition of governors, automatic voltage regulators, spares for the existing hydro, gas turbine and diesel power plants.

Part C: Institution Strengthening of ESCOM:

1. Enhancing the flow of information from ESCOM's branches to its headquarters and strengthening of its in-house planning capability through the acquisition of computers for installation in ESCOM's branches, including related training.

2. Carrying out of studies on electricity tariffs, asset revaluation and the transmission and distribution systems.

Part D: Charcoal:

1. Consultants' services to:

- (a) advise on and monitor the performance and marketing of

softwood charcoal production from forest thinnings;

(b) advise on commercialization of charcoal production and marketing;

(c) advise potential industrial and agro-industrial consumers as well as the Government on charcoal utilization; and

(d) prepare specifications for procurement of vehicles and equipment for charcoal production and performance monitoring.

2. Acquisition of vehicles and equipment for charcoal production and performance.

Part E: Wood Energy:

1. Institutional development of the Forestry Department through:

(a) establishment of an improved system for the management and protection of the indigenous forest and revenue collection;

(b) setting up of a pilot extension scheme in nine districts with acute fuelwood shortages; and

(c) establishment of a Monitoring and Evaluation Unit and a Planning Unit in the Forestry Department and strengthening of the existing units.

2. Enhancement of wood production through:

(a) promotion of tree planting by the private sector including the establishment of 60 retail nurseries to sell seedlings to smallholders and estates and provision of tree planting incentives payments to smallholders; and

(b) establishment of about 2,800 hectares of government fuelwood plantations at Mount Mulanje.

3. Wood conservation through:

(a) initiating the production and marketing of more fuel-efficient household cooking stoves; and

(b) dissemination of research findings and training of estate operators in techniques to reduce wood consumption in tobacco curing.

4. Support of the research program of the Forestry Research Institute of Malawi and the training program of the Forestry Department.

Part F: Energy Pricing Study

Consultants' services for the carrying out of an energy pricing study covering liquid fuels, woodfuel and coal and interfuel substitution possibilities, particularly in industry, households and transport.

* * * *

The Project is expected to be completed by June 30, 1994.

SCHEDULE 3

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be

procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts for vehicles, equipment, machinery and materials shall be grouped in bid packages estimated to cost the equivalent of \$100,000 or more each.

Part B: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower and ESCOM may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. (a) Vehicles, equipment, machinery and materials estimated to cost less than \$100,000 up to an aggregate amount not to exceed the equivalent of \$500,000, and which cannot be grouped in bid packages pursuant to paragraph A.2 above; and (b) civil works for the expansion of facilities at Malawi College of Forestry may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Equipment and spare parts for the rehabilitation of the existing generating plants under Part B of the Project which are proprietary in character and obtainable only from specific manufacturers may be procured through negotiated contracts.

3. Items estimated to cost less than the equivalent of \$30,000 per contract under Part E of the Project, up to an aggregate amount not to exceed the equivalent of \$100,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

4. Civil works, up to an aggregate amount not to exceed the equivalent of \$2,500,000, may be constructed through negotiations with:

(a) local contractors; or

(b) by MFNR or the Borrower's Ministry of Works, using their own personnel and equipment, with the prior agreement of the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

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

required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 and Schedule 5 to the Development Credit Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 5% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

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

SCHEDULE 4

Special Account A

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories 1 (a), 2, 4, 6, 10 (a) and 10 (b) 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 Parts A through C of the Project and to be financed out of the proceeds of the Credit allocated from time to time to the Eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

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

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

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

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

- (b) once the total unwithdrawn amount of the Credit allocated to the Eligible Categories for Parts A through C of the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts A through C of 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 for Parts A through C of the Project shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

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

- (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule;
- (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association:
 - (A) provide such additional evidence as the Association may request; or
 - (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by

the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

SCHEDULE 5

Special Account B

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories 1 (b), 3, 5, 7, 8, 9 and 10 (c) 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 Parts D and E of the Project and to be financed out of the proceeds of the Credit allocated from time to time to the Eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the

Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for Eligible Expenditures.

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

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

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

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

(b) once the total unwithdrawn amount of the Credit allocated to the Eligible Categories for Parts D and E of the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts D and E of 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 for Parts D and E of the Project shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

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

(i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule;

(ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association:

(A) provide such additional evidence as the Association may request; or

(B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time

that any amount outstanding in the Special Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

