

CONFORMED COPY

CREDIT NUMBER 2645 IN

Development Credit Agreement
(Industrial Pollution Prevention Project)

between

India

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 21, 1994

CREDIT NUMBER 3645 IN

DEVELOPMENT CREDIT AGREEMENT
AGREEMENT, dated November 21, 1994, between INDIA (the Borrower), acting by its President, 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 Industrial Credit and Investment Corporation of India (ICICI) has also requested the International Bank for Reconstruction and Development (the Bank) to provide assistance towards the financing of Part B(1) of the Project and by an agreement of even date herewith between the Bank and ICICI (the ICICI Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to fifty million dollars (\$50,000,000) (the ICICI Loan);

(C) by an agreement of even date herewith between the Borrower and the Bank (the ICICI Guarantee Agreement), the Borrower is agreeing to guarantee the obligations of ICICI in respect of the ICICI Loan and to undertake such other obligations as are set forth in the ICICI Guarantee Agreement;

(D) the Industrial Development Bank of India (IDBI) has also

requested the Bank to provide assistance towards the financing of Parts B(1), B(2) and C(3) of the Project and by an agreement of even date herewith between the Bank and IDBI (the IDBI Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to ninety-three million dollars (\$93,000,000) (the IDBI Loan);

(E) by an agreement of even date herewith between the Borrower and the Bank (the IDBI Guarantee Agreement), the Borrower is agreeing to guarantee the obligations of IDBI in respect of the IDBI Loan and to undertake such other obligations as set forth in the IDBI Guarantee Agreement; and

(F) Parts A, C(1), C(2) and C(4) of the Project will be carried out by the Borrower, Part B(1) of the Project will be carried out by ICICI and IDBI and Parts B(2) and C(3) of the Project will be carried out by IDBI with the assistance of the Borrower; 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 or referred to in this Agreement, the ICICI Loan Agreement, the ICICI Guarantee Agreement, the IDBI Loan Agreement and the IDBI Guarantee Agreement respectively;

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) "CPCB" means the Central Pollution Control Board of the Borrower and includes any successor or successors thereto;

(b) "Grant" means the grant provided by the Borrower to IDBI pursuant to Section 3.01 (b) hereof;

(c) "ICICI Guarantee Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the ICICI Guarantee Agreement;

(d) "ICICI Loan Agreement" means the agreement of even date herewith between ICICI and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the ICICI Loan Agreement;

(e) "IDBI Guarantee Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated February 9, 1993, as applied to such agreement, and all schedules and agreements supplemental to the IDBI Guarantee Agreement;

(f) "IDBI Loan Agreement" means the agreement of even date herewith between IDBI and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated February 9, 1993, as applied to such agreement, and all schedules and agreements supplemental to the IDBI Loan Agreement;

(g) "Implementation Cell" means the Implementation Cell established by the Borrower in its Ministry of Environment and Forests for the purposes of the Project;

(h) "Project State" means Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh or Rajasthan; and "Project States" means these States, collectively;

(i) "SPCBs" mean the State Pollution Control Boards of the Project States;

(j) "Subsidiary Grant Agreement" means the agreement to be entered into by the Borrower and the IDBI pursuant to Section 3.01 (b) hereof;

(k) "Special Account" means the account referred to in Section 2.02 (b) hereof;

(l) "Steering Committee" means the Steering Committee established by the Borrower for the purposes of the Project; and

(m) "Sub-grant", as the context permits, means a sub-grant made or proposed to be made by IDBI out of the proceeds of the Grant to an Investment Enterprise for an Investment Project under Part B (2) and C(3) 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 seventeen million seven hundred thousand Special Drawing Rights (SDR 17,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for (i) 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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Sub-Grant to meet the reasonable cost of goods and services required for the Investment Project under Part B (2) of the Project in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in the Reserve Bank of India 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.

Section 2.03. The Closing Date shall be March 31, 2002, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency

specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 15 and December 15 commencing December 15, 2004 and ending June 15, 2029. Each installment to and including the installment payable on June 15, 2014 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) 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 is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part A of the Project through the Project States, Part B(2) through IDBI and Parts C(1), C(2) and C(4) of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall pass on one million eight hundred thousand Special Drawing Rights (SDR 1,800,000) out of the proceeds of the Credit to IDBI as a grant pursuant to a Subsidiary Grant Agreement with IDBI, on terms and conditions satisfactory to the Association, for the purposes of making Sub-grants under Parts B(2) and C(3) of the Project.

(c) Without limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause IDBI to perform all its obligations set forth in the Subsidiary Grant Agreement, take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable IDBI to perform such obligations, and shall not take or permit to be taken any

action which would prevent or interfere with such performance.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out, or cause to be carried out, Parts A, C(1), C(2) and C(4) of the Project and cause IDBI to carry out Parts B(2) and C(3) of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. The Borrower shall cause the CPCB, Project States, SPCBs and any State of the Borrower in which any part of the Project is carried out, to undertake all actions necessary for the implementation of the Project.

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 the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than 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 expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) IDBI shall have failed to perform any of its obligations under the Subsidiary Grant 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 IDBI will be able to perform its obligations under the Subsidiary Grant Agreement.

(c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CPCB or any SPCB or for the suspension of their operations.

(d) The Subsidiary Grant Agreement shall have been amended, cancelled or terminated or the Steering Committee or Implementation Cell shall have been disbanded so as to affect materially and adversely the implementation of the Project.

(e) Any event specified in Section 5.02 of the ICICI Loan Agreement or Section 5.02 of the IDBI Loan Agreement shall occur.

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

(b) any event specified in paragraphs (c), (d) or (e) 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 Grant Agreement has been duly executed and delivered on behalf of the Borrower and IDBI;

(b) all conditions precedent to the effectiveness of the ICICI Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(c) all conditions precedent to the effectiveness of the IDBI Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Subsidiary Grant Agreement has been duly executed by IDBI and is legally binding upon IDBI in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary,

Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry 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:

The Secretary to the Government of
India
Ministry of Finance
Department of Economic Affairs
New Delhi, India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-3166175

For the Association:

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

Telex:

INDEVAS
Washington, D.C.

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.

INDIA

By /s/ N. Valluri
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Heinz Vergin
Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works:		90%

Part A	700,000	
Part B(2)	1,400,000	
(2) Equipment:		100% of foreign expenditures,
Part A	11,000,000	100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
Part C	1,400,000	
(3) Consultants' services, fees (including royalty) and training:		100%
Part A	2,100,000	
Part C	1,100,000	
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TOTAL	17,700,000	
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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, and (b) a Sub-grant unless the Sub-grant has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 4 to the IDBI Loan Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (a) goods and works under contracts not exceeding \$500,000 equivalent; and (b) services and training under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants respectively, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The main objective of the Project is to promote cost-effective pollution abatement and, in particular, to strengthen the institutional capacity of the Borrower and the SPCBs in four States; facilitate priority investments in clean technologies, waste minimization and resource recovery as well as pollution control; and promote the development, diffusion and transfer of technologies with environmental benefits for the industrial sector of the Borrower.

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: Institutional Development

Strengthening of SPCBs in the Project States in order to enhance their technical, institutional, monitoring and enforcement capabilities through:

(1) Training: Training of SPCB staff in technical and managerial skills in the following areas: (a) quality assurance and quality control of laboratory activities; (b) maintenance and operation training; (c) specialized technical training; and (d) supervisory training for management of the work of laboratories and for planning and implementing pollution control strategies.

(2) Equipment: Improvement in analytical and monitoring equipment for central laboratories in each Project State as well as for smaller regional laboratories.

(3) Laboratory Facilities: Refurbishing laboratory facilities including upgrading existing facilities, and the provision of additional space and infrastructure.

(4) Geographical Information System: Establishment of a pilot phase of a Geographical Information System at the Gujarat State Pollution Control Board to assist in the monitoring and tracking of toxic residue.
Part B: Investments

Provision of credit to individual firms for pollution abatement with focus on waste minimization and adoption of cleaner methods of production consisting of the following:

(1) Individual Treatment Facilities: Undertaking of Investment Projects relating to the designing and implementation of waste minimization, resource recovery and pollution abatement schemes by individual enterprises in targeted sectors.

(2) Common Treatment Facilities: (a) Undertaking of Investment Projects for establishing common effluent treatment facilities for the treatment of wastewater, solid waste and gaseous emissions generated by small scale industries at industrial estates and other sites; (b) establishment or strengthening of municipal wastewater recycling facilities providing water to industries, owned, operated and maintained on a commercial basis by companies fully responsible and liable for the operation of such units; and (c) carrying out of such studies as may be required for the location, design, and implementation of common treatment facilities.

Part C: Technical Assistance

(1) Establishment of a "clean technology institutional network" designed to promote the development, diffusion and transfer of technologies with environmental benefits for the industrial sector.

(2) Identification of appropriate waste minimization and abatement methods for small scale industry, and the organization of waste minimization circles.

(3) Carrying out feasibility and pre-investment studies for CETPs, IWRPs and other facilities to be financed under Part B of the Project.

(4) Provision of training and consultants' services to assist the Borrower's Ministry of Environment and Forests.

* * *

The Project is expected to be completed by September 30, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under

contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in India may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. (a) Except as provided in sub-paragraph (b) hereof, items or groups of items for equipment under Parts A and C of the Project, estimated to cost the equivalent of \$200,000 or less but more than \$50,000 per contract, up to an aggregate amount equivalent to \$4,400,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

(b) Items or groups of items for equipment under Parts A and C of the Project, estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$1,900,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Civil works under Part A of the Project shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Equipment and civil works under Part B of the Project, estimated to cost the equivalent of \$5,000,000 or less per contract, may be procured at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the equipment and availability of maintenance facilities and spare parts therefor, and, in the case of civil works, of their quality and the competence of the parties rendering them.

Part D: Review by the Association of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 (i) hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract estimated to cost the equivalent of \$500,000 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 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

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 individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. The Borrower shall ensure that the SPCBs have adequate office and laboratory facilities to properly operate and maintain equipment supplied to them under the Project.

2. The Borrower shall maintain the Steering Committee and the Implementation Cell in its Ministry of Environment and Forests, with adequate staff, resources and facilities and provide requisite assistance to them to carry out their functions properly.

3. The Borrower shall, by December 31, 1994, set up a task force, acceptable to the Association, to carry out further analysis of market-based instruments for pollution abatement, under terms of reference satisfactory to the Association; and shall, thereafter, discuss with the Association steps for the implementation of such program.

4. The Borrower shall, by December 31, 1994, establish general

indicators, satisfactory to the Association, to measure implementation of the Project, including compliance of the industrial sector with applicable regulations as well as emission of key pollutants.

5. The Borrower shall, by June 30, 1995, prepare an action plan, satisfactory to the Association, for institutional strengthening of the SPCB of each Project State.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

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

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in 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 paid 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 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 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 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; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

