

CONFORMED COPY

CREDIT NUMBER 1847 GH

(Public Enterprise Project)

between

REPUBLIC OF GHANA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 30, 1987

CREDIT NUMBER 1847 GH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 30, 1987, between the REPUBLIC OF GHANA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Develop-

ment 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

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

(b) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated May 10, 1984 and August 6, 1984 between the Borrower and the Association;

(c) "DIC" means the Divestiture Implementation Committee, referred to in Section 3.09 (a) of this Agreement;

(d) "Divestiture" means the sale of an SOE or of its assets, in whole or in part, to the private sector and includes privatization and liquidation;

(e) "Divestiture Account" means the account referred to in Section 3.09 (c) of this Agreement;

(f) "PNDC" means the Provisional National Defence Council of the Borrower;

(g) "SEC" means the Borrower's State Enterprises Commission, operating pursuant to the State Enterprises Commission Law, 1987 (PNDC 170) of March 10, 1987;

(h) "SOE" means State-owned enterprise and includes statutory boards, statutory corporations and limited liability companies of which the Borrower is directly or indirectly a majority shareholder;

(i) "SOE Reform Program" means the Borrower's SOE reform program whose initial phase is part of the Borrower's Structural Adjustment Program;

(j) "SOE Restructuring Fund" means the fund referred to in Section 3.12 of this Agreement; and

(k) "Structural Adjustment Program" means the program referred to in the Preamble to the Development Credit Agreement, dated May 19, 1987, between the Borrower and the Association for the Structural Adjustment Credit.

## 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 eight million three hundred thousand Special Drawing Rights (SDR 8,300,000).

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

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

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

(b) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 1 and August 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 semi-annual installments payable on each February 1 and August 1 commencing February 1, 1998 and ending August 1, 2027. Each installment to and including the installment payable on August 1, 2007 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the

Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

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

### 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 A and C of the Project through SEC and Part B through DIC with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and management practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the SOE Reform Program; prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on such progress in such detail as the Association shall reasonably request.

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, not later than October 31 of each year starting October 31, 1988, submit to the Association for its review and comment:

- (i) a detailed report on progress achieved in the execution of the Project;
- (ii) SEC's detailed work program for the following fiscal year;
- (iii) DIC's detailed work program for the following fiscal year, including a list of SOEs to be divested during such year; and
- (iv) the list of SOEs for which a performance agreement shall be negotiated during the following fiscal year.

Section 3.04. The Borrower shall include adequate amounts in its budget for each fiscal year in order to cover:

- (a) SEC's recurrent expenditures;
- (b) the Borrower's estimated net liabilities resulting from the divestiture of SOEs; and
- (c) the Borrower's estimated net liabilities resulting from the SOE staff redeployment program.

Section 3.05. In carrying out the Project, the Borrower shall at all times follow, and cause its SOEs to follow, Guidelines for Government-SOE Financial Transfers, satisfactory to the Association.

Section 3.06. For the purposes of Parts A.1 and A.2 of the Project, the Borrower shall, not later than December 31, 1988, submit to the Association for its review and comments a report on the progress made by SEC in the implementation of the SOE

performance monitoring system, including recommendations on improvements to be made in such system and in the administrative arrangements and institutional framework governing SOEs; and promptly thereafter, implement such recommendations as shall have been satisfactory to the Association.

Section 3.07. For the purpose of Part A.3 of the Project, the Borrower shall, not later than October 31, 1988, submit to the Association for its review and comments, a report including recommendations on changes to be made to the legal instruments governing SOEs in order to increase said SOEs' autonomy and, promptly thereafter, implement such recommendations as shall have been satisfactory to the Association.

Section 3.08. For the purpose of Part A.3 of the Project, the Borrower shall undertake a review of the effects of price controls on SOE performance and, not later than October 31, 1988, submit to the Association for its comments an action plan (including a timetable) on SOE pricing autonomy and market competition and the mechanism for the review and adjustment of price levels, and, promptly thereafter, implement such action plan and mechanism as shall have been satisfactory to the Association and the Borrower.

Section 3.09. For the purpose of Part B of the Project, the Borrower shall maintain: (a) its DIC, which shall be responsible for carrying out the divestiture of the SOEs whose divestiture has been decided by the PNDC and for preparing and/or reviewing divestiture proposals for PNDC's consideration;

(b) the DIC technical team staffed with qualified and experienced professionals in adequate numbers, including at least one accountant, a financial analyst and a lawyer; and

(c) the Divestiture Account, in which all proceeds from the divestiture shall be deposited to be used exclusively to pay the Borrower's net liabilities arising in connection with such divestiture.

Section 3.10. For the purpose of Part B of the Project, the Borrower shall: (a) prepare detailed company dossiers for each SOE to be divested; such dossiers to include preliminary viability assessments and valuations, the recommended divestiture mechanism, the amount of outstanding liabilities and an analysis of legal issues presented by such divestiture; and

(b) not later than December 31, 1987, submit to the Association for its comments not less than five such dossiers (including one for the State Fishing Corporation) in addition to those referred to in Section 6.01 (a) of this Agreement.

Section 3.11. For the purpose of Part B of the Project, the Borrower shall, not later than August 31, 1988, submit to the Association for its comments the recommendations resulting from a review of the administrative arrangements for managing the divestiture program described in Part B.1 of the Project and, promptly thereafter, implement such recommendations as shall have been satisfactory to the Association.

Section 3.12. The Borrower shall: (a) charge a fee to the SOEs receiving assistance from the SOE Restructuring Fund, according to a fee schedule based on principles satisfactory to the Association; and

(b) establish a revolving account into which all such fees shall be deposited for use exclusively for the purposes of Part C 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, agencies or SOEs 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 six 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) after any of the exchanges of views referred to in Section 3.01 (b) of this Agreement, the Association shall have determined that the progress achieved by the Borrower in carrying out the initial phase of the SOE Reform Program is not satisfactory; and

(b) any instrument establishing SEC or DIC shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SEC or DIC, as the case may be, to perform any of the Borrower's obligations under this

Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (b) of Section 5.01 of this Agreement shall have occurred.

#### 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 prepared company dossiers, as described in Section 3.10 of this Agreement, for the divestiture of at least five SOEs;

(b) the Borrower has appointed full-time staff to the DIC technical team referred to in Section 3.09 (b) of this Agreement, including an accountant, a financial analyst and a lawyer;

(c) the Borrower has selected a SOE Reform Program advisor and a divestiture advisor who shall have qualifications, experience and terms and conditions of employment satisfactory to the Association; and

(d) the Divestiture Account has been opened.

Section 6.02. 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 6.03. The obligations of the Borrower under Section 4.01 of this Agreement and the provisions 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 ten (10) years after the date of this Agreement, whichever shall be the earlier.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The PNDC Secretary for Finance and Economic Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

PNDC Secretary for Finance and Economic Planning  
Ministry of Finance and Economic Planning  
P.O. Box M40  
Accra, Ghana

Cable address:

ECONOMICON  
Accra

Telex:

2205 MIFAEP GH

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 GHANA

By /s/ Eric Otoo  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Caio K. Koch-Weser  
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) Works for Part A	940,000	85%
(2) (a) Equipment, furniture and vehicles for Parts A and B	400,000	100% of foreign expenditures
(b) Office equip- ment (including computer hard- ware and soft- ware) for Part C	600,000	100% of foreign expenditures
(3) Consultants' services and training		
(a) for Parts A and B	1,500,000	100%
(b) for Part C	3,750,000	100%
(4) Operating Costs	110,000	100%



Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(5) Refunding of Project Preparation Advance	330,000	Amount due pur- suant to Section 2.02 (c) of this Agreement
(6) Unallocated	670,000	
	<hr/>	
TOTAL	8,300,000	

2. For the purposes of this Schedule:

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

(b) the term "operating costs" means: (i) the salaries of two secretaries and a driver, operating and maintenance costs for four vehicles, travel expenses for DIC members and staff, postal and telecommunications expenses, stationery, printing and advertising, but excluding civil servants' salaries, for Part B; and (ii) rental fees for office space for consultants; and

(c) the term "Part" refers to a part of the Project described in Schedule 2 to this Agreement.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (i) in the short term, to facilitate the implementation of the Borrower's SOE Reform Program; and (ii) in the longer term, to streamline the Borrower's SOE Sector and improve its efficiency.

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: Strengthening of management of SOE Reform Program

1. Strengthening of SEC's capability to manage the SOE Reform Program, monitor and evaluate SOE performance and advise on major SOE issues and policies.

2. Streamlining of the institutional framework governing the SOE Sector, through clarification of the roles and responsibilities of SEC, the National Trust Holding Company, the Ministry of Finance and Economic Planning and the sector ministries and commissions in the oversight of the SOE Sector.

3. Assessment and adjustment of the legal and policy framework governing SOEs, in order to inter alia increase SOE autonomy and accountability and improve SOE performance.

4. Negotiation, signing and implementation of performance agree-

ments between the Borrower and selected SOEs.

5. Training of SEC staff, rental and construction of SEC offices and acquisition of office equipment and vehicles for SEC.

Part B: Divestiture of SOEs

1. Divestiture of at least 30 SOEs, including preliminary studies and audits, preparation of prospectuses, valuation of assets, information campaign, search for investors, review of bids and negotiation of sales arrangements.

2. Strengthening of the Divestiture Implementation Committee and of its technical team, including advisory services, training, vehicles and equipment.

3. Establishment and operation of the Divestiture Account.

Part C: SOE Restructuring Programs

1. Establishment of an SOE Restructuring Fund in SEC to assist selected SOEs (including Black Star Line, Ghana Airways, State Transport Corporation, Omnibus Service Authority and City Express Service) in preparing and implementing restructuring programs and corporate plans with a view to achieving financial viability and implementing operational and managerial improvements through inter alia: viability studies, market forecasts, financial and management audits, staff inventories and manpower redeployment plans, management contracts or twinning arrangements, training of SOE managers and staff, and office equipment to improve management information, accounting and budgeting systems.

\* \* \*

The Project is expected to be completed by December 31, 1993.

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 goods shall be grouped in bid packages estimated to cost more than the equivalent of \$150,000 each.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Ghana 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. Goods estimated to cost the equivalent of \$150,000 or less per contract and civil works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Goods estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$300,000, 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.

3. Proprietary computer equipment and spare parts for vehicles and computer equipment may be purchased by direct negotiated purchase from one manufacturer or supplier if in the opinion of the Association: (a) suitable computer equipment or spare parts, compatible with computer equipment or vehicles already in place, cannot be obtained from another source; and (b) the cost of such equipment or spare parts is reasonable.

#### 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 for goods estimated to cost more than the equivalent of \$150,000 and to each contract for civil works 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 to this 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 15% 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 in carrying out the Project, the Borrower shall employ financial, management, legal and other consultants (including an SOE Reform Program advisor and a divestiture advisor) 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.

## Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (4) 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 \$700,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

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

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

(ii) the total unwithdrawn amount of the Credit allocated to the Eligible Categories, minus the amount of any outstanding special commitment

entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

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

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

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

#### ANNEX

##### Guidelines for Government - SOE Financial Transfers

1. Operating Subsidies (current transfers): No operating subsidies shall be granted to SOEs, except for selected SOEs already receiving subsidies in the 1986 fiscal year. For such SOEs, performance agreements based on corporate plans shall incorporate the phased removal of such subsidies .

2. Equity: The Borrower shall not make any equity contributions to SOEs unless such contributions are: (i) included in the Public Investment Program (PIP); or (ii) incorporated in an agreed corporate or divestiture plan. SOEs with arrears in taxes and debt service due to the Borrower shall not be eligible for equity contributions unless elimination of arrears is incorporated in agreed corporate plan.

3. Loans: Loans may be granted by the Borrower to SOEs, subject to inclusion in the PIP and agreed corporate plan, provided that the SOE has demonstrated its inability to raise local finance from commercial sources. SOEs with arrears in taxes and debt service due to the Borrower shall not be eligible for loans from the budget unless elimination of arrears is incorporated in agreed corporate plan.

4. Debt Service: All SOEs, not current on their debt service payments to the Borrower, shall present a financing plan providing for phased clearance of all arrears of debt service obligations to the Borrower.

5. Taxes and Social Security Contributions: All SOEs, not current on their tax obligations to the Borrower (including corporate, customs, excise and sales taxes) and on their Social Security contributions, shall present a proposal for phased clearance of such arrears to the National Revenue Secretariat, the Social Security and National Insurance Trust and SEC.

6. Loan Guarantees: The Borrower shall not grant any loan guarantee (domestic or external) to SOEs, unless such guarantee is included in an agreed corporate plan and in the PIP.

7. Dividends and Retained Earnings: All profitable SOEs shall be required to pay annual dividends, unless the agreed corporate plan provides for reinvestment of profits.

8. Foreign Exchange Risk: SOEs shall bear the foreign exchange risk for all external loans on-lent by the Borrower to the SOE.

