

CONFORMED COPY

CREDIT NUMBER 2250 CE

(Fourth Small and Medium Industries Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 15, 1991

CREDIT NUMBER 2250 CE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 15, 1991, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, has issued a statement on a Strategy for Industrialization in Sri Lanka dated December 15, 1989 (the Strategy), describing objectives and policies designed for the development and expansion of the industrial sector, and declaring the Borrower's commitment to the implementation of said policies;

(B) the Borrower, has issued a Statement of Financial Sector Policy dated May 3, 1991 (the Statement), describing objectives and policies designed for the development and expansion of the financial sector, and declaring the Borrower's commitment to the implementation of said policies;

(C) the Borrower has requested the Association to assist in the financing of measures to be undertaken pursuant to, or in furtherance of, the provisions of the Statement through the Project described in Schedule 2 to this Agreement by extending the Credit as hereinafter provided;

(D) from the Asian Development Bank (ADB), the Borrower intends to contract a loan (the ADB Loan) in an amount equivalent to SDR 22,374,000 to assist in financing the Project on terms and conditions set forth in an agreement (the ADB Agreement) to be entered into between the Borrower and ADB; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

(a) "First Agreement" means the Development Credit Agreement (Small and Medium Industries Project) between the Borrower and the Association dated July 24, 1979, "Second Agreement" means the Development Credit Agreement (Second Small and Medium Industries Project) between the Borrower and the Association dated February 5, 1982, and "Third Agreement" means the Development Credit Agreement (Third Small and Medium Industries Project) between the Borrower and the Association dated February 10, 1988;

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

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

(d) "Participating Credit Institution" means any credit institution established or operating under the laws of the Borrower, which has entered into a participation agreement with NDB pursuant to the provisions of Part 4 of Schedule 4 to this Agreement;

(e) "Small and Medium Industry" means an enterprise privately or cooperatively owned, with plant and equipment with a book value (excluding land and buildings) of less than Rs 8,000,000, prior to the granting of a Sub-loan;

(f) "Sub-loan" means a loan made or proposed to be made by a Participating Credit Institution out of the proceeds of the Credit in accordance with the provisions

of this Agreement;

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

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

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

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

(k) "AWDR" means the Average Weighted Deposit Rate of the interest rates paid to depositors by branches in the Greater Colombo area of domestic commercial banks (other than the National Savings Bank) on interest-bearing term deposits, as issued by the Central Bank of Sri Lanka on January 1 and July 1;

(l) "State Commercial Banks" means the Bank of Ceylon, and the People's Bank; and

(m) "Rs" means Rupees, the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirty-three million three hundred thousand Special Drawing Rights (SDR 33,300,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Association for expenditures made (or, if the Association shall so agree, to be made): (i) in respect of Sub-loans under Part A of the Project; and (ii) in respect of the reasonable cost of goods and services required for Part B of the Project and to be financed out of the proceeds of the Credit.

(b) A free-limit Sub-loan shall be a Sub-loan for a Sub-project in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum of Rs 8,000,000 equivalent when added to any other outstanding amounts financed or proposed to be financed for such Sub-project out of the proceeds of the Credit, provided, however, that no amount shall be withdrawn from the Credit Account unless: (A) the Sub-loan shall have been approved by the Association, or (B) the Sub-loan shall be a free-limit Sub-loan for which the Association shall have authorized withdrawals from the Credit Account. NDB shall in turn authorize financing to the Participating Credit Institutions on the basis of NDB's prior approval of Sub-loans of Rs 8,000,000 or more. For Sub-loans of less than Rs 8,000,000, NDB shall authorize financing to a Participating Credit Institution within two weeks following application from such Participating Credit Institution.

(c) When presenting a Sub-loan (other than a free-

limit Sub-loan) to the Association for approval, the Borrower shall furnish or cause to be furnished to the Association, an application in form satisfactory to the Association, together with: (i) a description and appraisal of the Sub-project, including the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Sub-loan, including the amortization schedule thereto; and (iii) such other information as the Association shall reasonably request.

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

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

Section 2.03. The Closing Date shall be October 31, 1996 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 semi-annually on March 15 and September 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 March 15 and September 15 commencing September 15, 2001 and ending March 15, 2031. Each installment to and including the installment payable on March 15, 2011 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

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

ARTICLE III

Execution of the Project

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

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than four months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents)

evidencing such expenditures;

- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

- (a) A situation has arisen which shall make it improbable that the objectives and policies included in the Strategy, or in the Statement, or a significant part thereof, will be implemented.
- (b) The National Development Bank Act, No. 2 of 1979, shall have been amended, suspended, abrogated, repealed or waived so as, in the judgment of the Association, to materially affect the carrying out of the Project or the operations or financial condition of NDB.
- (c) A change shall have been made in the Subsidiary Loan Agreement without the Association's consent.
- (d) A change shall have been made in the Statement of Policy without the Association's consent.
- (e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of NDB or SMI Fund, or for the suspension of the operations of NDB or SMI Fund.
- (f) The ADB Agreement shall have failed to become effective by October 15, 1991, or such later date as the Association may agree, provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.
- (g) (i) Subject to subparagraph (ii) of this paragraph:
 - (A) the right of the Borrower to withdraw the proceeds of the ADB Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the ADB Agreement, or
 - (B) the ADB Loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall

not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

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

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

(c) any events specified in paragraph (g) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (g) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Loan Agreement has been entered into by the Borrower and NDB; and

(b) agreements have been entered into by NDB with at least three Participating Credit Institutions in accordance with the provisions of Part 4 of Schedule 4 to 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 Loan Agreement has been duly authorized or ratified by, and is legally binding upon the Borrower and NDB in accordance with its terms.

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

Section 6.04. The obligations of the Borrower under Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary, 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:

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

Cable address:

SECMINFIN
Colombo

Telex:

FINMIN 21409
FORAID 21232

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ Susantha de Alwis
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jochen Kraske
Acting Regional Vice President
Asia

SCHEDULE 1

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Sub-loans under Part A of the Project	29,600,000	70%

(2)	Expenditures under Part B of the Project:	3,700,000
(a)	Goods	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items pro- cured locally
(b)	Consultants' services and training	100%
	TOTAL	33,300,000 =====

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; and

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

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

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

(b) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,220,000, may be made in respect of Category (1) on account of payments made for expenditures before that date but after December 31, 1990; or

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

SCHEDULE 2

Description of the Project

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

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the

Association may agree upon from time to time to achieve such objective:

Part A: Sub-loans

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

Part B: Support Systems

Provision of technical assistance for:

1. institutional development of:
 - (a) NDB;
 - (b) Participating Credit Institutions; and
 - (c) State Commercial Banks.
2. policy development in:
 - (a) customs, excise and other procedures to facilitate business operations;
 - (b) insurance industry reform;
 - (c) export development and investment promotion;
 - (d) small and medium enterprises operations; and
 - (e) environmental protection in the industrial sector.
3. project implementation support to small and medium enterprises.

* * *

The Project is expected to be completed by March 31, 1996.

SCHEDULE 3

Terms for Onlending, Relending and Sub-loans

- A. Terms for Onlending by Borrower to NDB
 1. Interest rate : AWDR
 2. Amortization period : 15 years, inclusive of 5 years of grace
 3. Foreign exchange risk : to be borne by Borrower
 4. Administration fee to be paid by Borrower to NDB : 1% per annum of Credit proceeds outstanding
- B. Terms for Relending by NDB to Participating Credit Institutions
 1. Interest rate : AWDR
 2. Initial amount : up to 70% of amount of each Sub-loan with annual review of utilization
 3. Amortization period

- (a) DFCC : 15 years, inclusive of 5 years of grace
 - (b) other Participating Credit Institutions : maximum of 10 years, inclusive of up to 2 years of grace
- C. Terms of Sub-loans
- 1. Interest rate : to be determined by the respective Participating Credit Institution
 - 2. Amortization period : up to 10 years including grace periods of up to 2 years
 - 3. Maximum size of borrowing enterprise : Rs 8,000,000 in total fixed assets at book value (excluding land and buildings) prior to granting of Sub-loan
 - 4. Maximum Sub-loan size : Rs 8,000,000 (except as the Association may otherwise determine)
- D. Adjustment of Terms
- 1. The mechanisms for establishing interest rates and administrative fees referred to above, shall be reviewed on each September 30 and March 31 and, if necessary, adjusted, based on procedures agreed upon between the Borrower and the Association.
 - 2. The actual rate charged to NDB by the Borrower, and to the Participating Credit Institutions by NDB, shall be amended each January 1 and July 1.

SCHEDULE 4

Implementation Program

- 1. For the purposes of carrying out the Project, the Borrower shall:
 - (a) maintain the Project Coordinating Committee established under the First Agreement and operating under the First, Second, and Third Agreements, with such membership and terms of reference as shall be satisfactory to the Borrower and the Association;
 - (b) cause NDB to maintain the SMI Fund with: (i) an organizational structure satisfactory to the Association; (ii) staff whose numbers, qualifications and experience are satisfactory to the Association; and (iii) accounting procedures and a statement of policies and operating procedures satisfactory to the Association;
 - (c) cause NDB to consult with the Association prior to the appointment of a new General Manager of NDB and prior to making any significant amendments to the policy statements; and
 - (d) ensure that the Participating Credit Institutions retain responsibilities satisfactory to the Association for lending to small and medium industries.
- 2. The Borrower shall cause NDB to:
 - (a) apply procedures and criteria satisfactory to

the Association in NDB's review of a Sub-project appraisal by a Participating Credit Institution for a Sub-loan to be financed by the SMI Fund under the Project;

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

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

3. The Borrower shall cause the Small and Medium Industries Credit Guarantee Scheme of the Borrower's Central Bank to be maintained in form and substance satisfactory to the Association.

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

5. The Borrower shall cause NDB to relend proceeds of the Credit to Participating Credit Institutions if the performance of each such Participating Credit Institution complies with eligibility criteria satisfactory to the Association.

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

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

7. The Borrower shall cause all Participating Credit Institutions to have their records and accounts audited by independent auditors acceptable to the Association.

8. The Borrower shall, in accordance with programs and time-schedules satisfactory to the Association:

(a) reduce the Borrower's shareholding in NDB; and

(b) reduce the State Commercial Bank's respective share- holdings in DFCC to not more than 15 percent by March 31, 1992.

9. The Borrower shall by October 1, 1991 furnish a report to the Association, on the measures taken to improve the recovery of debts referred to in Section 6.01 (a) of the Development Credit Agreement (Third Industrial Development Project) between the Borrower and the Association dated September 19, 1988, which shall include:

(a) the initial impact of legislation to improve

debt recovery;

(b) actions taken since the legislation was passed, to improve debt recovery; and

(c) recommendations on actions required, if any, to improve the operation of the debt recovery legislation.

10. The Borrower shall by March 31, 1992 conduct a review with the Association with regard to the actions taken pursuant to the Statement and the implementation of the Project, including the continued eligibility of the State Commercial Banks as Participating Credit Institutions.

SCHEDULE 5

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

A. Under Part A of the Project, the Borrower shall cause NDB to establish procedures in line with established commercial practice, to ensure that the goods and works procured shall be purchased at reasonable and competitive prices in accordance with procedures satisfactory to the Association, due account being taken also of other relevant factors such as time of delivery, quality and reliability of the goods and availability of maintenance facilities and spare parts therefor; and

B. Under Part B of the Project:

1. Goods may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or groups of items estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$1,000,000, 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 "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985, in accordance with procedures acceptable to the Association.

Section II. Employment of Consultants

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

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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 \$3,000,000 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, 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 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.

