Development Credit Agreement

(Colombo Environmental Improvement Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated JULY 24, 1995
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated JULY 24, 1995, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the Borrower) and 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;

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 modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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:
"CMC Agreement" means the agreement to be entered into between the Borrower and the Colombo Municipal Council and the Urban Development Authority pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the CMC Agreement;

"NWSDB Agreement" means the agreement to be entered into between the Borrower and the National Water Supply and Drainage Board pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the NWSDB Agreement;

"UDA Agreement" means the agreement to be entered into between the Borrower and the Urban Development Authority pursuant to Section 3.01 (e) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the UDA Agreement;

"Project Area" means the Colombo Municipal Council and surrounding local authorities in the Colombo, Kalutara and Gampaha Districts of the Borrower's Western Province;

"AWDR" means the Average Weighted Deposit Rate, namely the weighted average of the interest rates paid to depositors by the branches in the Greater Colombo area of domestic commercial banks (other than the National Savings Bank) on interest-bearing term deposits, as issued weekly by the Central Bank of Sri Lanka, calculated on the basis of the previous 26 week period;

"Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated November 1, 1993 and November 22, 1993 between the Borrower and the Association; and

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

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 twenty four million eight hundred thousand Special Drawing Rights (SDR 24,800,000).
Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank and on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 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, 2001 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 or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment 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 per cent (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, 2005 and ending June 15, 2035. Each installment to and including the installment payable on June 15, 2015 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 and cause to be carried out the Project with due diligence and efficiency and in conformity with appropriate engineering, environmental, administrative and financial 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.

(c) The Borrower shall, in order to assist in carrying out Part A of the Project, onlend an amount not to exceed the equivalent of $12,900,000 out of the proceeds of the Credit to the Colombo Municipal Council under an agreement to be entered into between the Borrower and the Colombo Municipal Council and the Urban Development Authority, under terms and conditions which shall have been approved by the Association and which shall include those outlined in Part A of Schedule 6 to this Agreement.

(d) The Borrower shall, in order to assist in carrying out Part B of the Project, onlend an amount not to exceed the equivalent of $9,800,000 out of the proceeds of the Credit to the National Water Supply and Drainage Board under an agreement to be entered into between the Borrower and the National Water Supply and Drainage Board, under terms and conditions which shall have been approved by the Association and which shall include those outlined in Part B of Schedule 6 to this Agreement.

(e) The Borrower shall, in order to assist in carrying out Part C of the Project, make available an amount not to exceed the equivalent of $15,600,000 out of the proceeds of the Credit to the Urban Development Authority under an agreement to be entered into between the Borrower and the Urban Development Authority, under terms and conditions which shall have been approved by the Association and which shall include those outlined in Part C of Schedule 6 to this Agreement.

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

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

Section 3.03. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan, of such scope and in such detail as the Association shall reasonably request, for the future operation of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

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 of the Colombo Municipal Council, the National Water Supply and Drainage Board and the Urban Development Authority, including those 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 Accounts for each fiscal year audited, in accordance with appropriate auditing principles
consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than seven 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 report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Accounts 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

Effective Date; Termination

Section 5.01. 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 CMC Agreement has been executed on behalf of the Borrower and the Colombo Municipal Council and the Urban Developmental Authority;

(b) the NWSDB Agreement has been executed on behalf of the Borrower and the National Water Supply and Drainage Board;

(c) the UDA Agreement has been executed on behalf of the Borrower and the Urban Development Authority; and

(d) consultants shall have been employed pursuant to the provisions of Section II of Schedule 3 to this Agreement, for:

   (i) solid waste management;

   (ii) design and construction supervision for the wastewater collection systems and Beira Lake catchment area sewerage works; and

   (iii) solicitation and evaluation of Build, Own, Operate or Build, Own, Transfer proposals for the wastewater treatment plants.

Section 5.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the CMC Agreement has been duly authorized or ratified by the Borrower and the Colombo Municipal Council and the Urban Development Authority and is legally binding upon the Borrower and the Colombo Municipal Council and the Urban Development Authority in accordance with its terms;

(b) that the NWSDB Agreement has been duly authorized or ratified by the Borrower and the National Water Supply and Drainage Board and is legally binding upon the Borrower and the National Water Supply and Drainage Board in accordance with its terms; and
(c) that the UDA Agreement has been duly authorized or ratified by the Borrower and the Urban Development Authority and is legally binding upon the Borrower and the Urban Development Authority in accordance with its terms.

Section 5.03. 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 VI

Representatives of the Borrower; Addresses

Section 6.01. The Secretary, Ministry of Finance, Planning, Ethnic Affairs, and National Integration of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance, Planning, Ethnic Affairs, and National Integration
Democratic Socialist Republic of Sri Lanka
Colombo, Sri Lanka

Cable address: SECMINFIN
Telex: FINMIN 21409
Colombo FORAID 21232

For the Association:

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

Cable address: INDEVAS
Telex: 248423 (RCA)
Washington, D.C. 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/ JAYANTHA C.B. DAWANARALA
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ O. JOSEPH WOOD
Regional Vice President
South Asia
SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Turnkey Contract under Part A.1 of the Project</td>
<td>6,550,000</td>
<td>100% of foreign expenditures and 70% of local expenditures</td>
</tr>
<tr>
<td>(2) Sewerage works under Part C.1 of the Project</td>
<td>5,470,000</td>
<td>100% of foreign expenditures and 70% of local expenditures</td>
</tr>
<tr>
<td>(3) Sewer Networks under Part B.1 of the Project</td>
<td>4,830,000</td>
<td>100% of foreign expenditures and 70% of local expenditures</td>
</tr>
<tr>
<td>(4) Other civil works</td>
<td>320,000</td>
<td>70%</td>
</tr>
<tr>
<td>(5) Goods</td>
<td>1,140,000</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 70% of local expenditures for other items procured locally</td>
</tr>
</tbody>
</table>
### Table

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(6) Consultants' services, mass media and training</td>
<td>3,690,000</td>
<td>100%</td>
</tr>
<tr>
<td>(7) Refunding of Preparation Advance</td>
<td>450,000</td>
<td>Amounts due pursuant to Section 2.02 (c) of this Agreement</td>
</tr>
<tr>
<td>(8) Unallocated</td>
<td>2,350,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>24,800,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

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 "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "turnkey contract" includes detailed design and construction of the landfill and compost plant, and supply of mobile equipment for the operation of the landfill.

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

(a) in respect of payments made for expenditures prior to the date of this Agreement; and
(b) in respect of expenditures under Category (3) unless financing arrangements satisfactory to the Association, for the construction of the two wastewater treatment plants under Part B.1 of the Project, have been concluded.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure under contracts for:

   (a) goods not exceeding $200,000 equivalent;

   (b) works not exceeding $300,000 equivalent;

   (c) consulting firms not exceeding $100,000 equivalent; and

   (d) individual consultants not exceeding $50,000 equivalent,

   all under such terms and conditions as the Association shall specify by notice to the Borrower.
SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to improve solid waste management in the Project Area; (ii) to control wastewater pollution; (iii) to develop capabilities for management of municipal services; and (iv) to assist in mobilizing private participation in urban infrastructure development and operation.

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: Colombo Municipal Council

1. Construction of a sanitary landfill and a 100 tons per day capacity compost plant at Welisara.

2. Provision of equipment and vehicles for collection, transport and disposal of hospital wastes at the Welisara landfill.

3. Provision of technical assistance to the Colombo Municipal Council and participating local authorities, to improve solid waste management, to involve the private sector in waste management operations, and for implementation support (such as preparation of designs and bid documents, bid evaluation and construction supervision).

Part B: National Water Supply and Drainage Board

1. Construction of two sewer networks, one in the Ratmalana, and another in the Ekala/Ja-Ela industrialized areas, to convey industrial and domestic wastewater to two wastewater treatment plants to be built and operated by private investors.

2. Provision of technical assistance to the National Water Supply and Drainage Board to solicit for formulation and evaluation of proposals for the construction and operation of the wastewater treatment plants, and other implementation support (such as preparation of designs and bid documents, bid evaluation and construction supervision).

Part C: Urban Development Authority

1. Construction of sewerage works in the Beira Lake catchment area for:
(a) connection of wastewater outlets to the sewerage system; and

(b) reduction of sewerage overflows through cleaning of sewer lines, rehabilitating pumping stations, and adding a sewer line.

2. Provision of potable water supply and other infrastructure to the community residing adjacent to the Welisara landfill site.

3. Carrying out of a public awareness program.

4. Provision of technical assistance to the Urban Development Authority for:

   (a) establishment of a geographic information system for Greater Colombo;

   (b) preparation of Colombo Master Plan update and a Trincomalee regional infrastructure development plan;

   (c) completion of a long-term solid waste disposal strategy for the Project Area;

   (d) Beira Lake restoration follow-up study; and

   (e) implementation support (such as preparation of designs and bid documents, bid evaluation and construction supervision).

* * *

The Project is expected to be completed by June 30, 2000.
SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

   (a) Pre-qualification

   Bidders for works shall be pre-qualified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

   (b) Preference for domestically manufactured goods and domestic contractors

   The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

Community Participation

Provision of community infrastructure under Part C.2 of the Project estimated to cost the equivalent of $900,000 or less in the aggregate, may be procured in accordance with procedures acceptable to the Association.
Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to pre-qualify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of $200,000 or more, and each contract for works estimated to cost the equivalent of $300,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than $100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost 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

General

1. The Borrower shall maintain with members, staff, responsibilities and resources satisfactory to the Association:

   (a) the Project Coordinating Unit; and

   (b) the Public Consultation Panel.

2. The Borrower shall:

   (a) maintain procedures to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof; and

   (b) by September 30, 1997 conduct a comprehensive mid-term review with the Association with regard to the implementation of the Project, in line with the objectives of the Project.

3. The Borrower shall take all necessary action to ensure that the Colombo Municipal Council has full and complete access at any time to the Welisara landfill site.

4. The Borrower shall cause to be completed by June 30, 1997 a time-bound program satisfactory to the Association, for compliance with established industrial wastewater effluent discharge standards in the Ratmalana and Ekala/Ja-Ela industrial areas.

5. The Borrower shall arrange for adequate and timely funds for the construction of the wastewater treatment plants in the event no financing from the private sector for that purpose is secured.

Colombo Municipal Council

6. The Borrower shall cause the Colombo Municipal Council to:

   (a) maintain a CMC Project Implementation Unit with staff, responsibilities and resources satisfactory to the Association;
(b) establish and thereafter maintain under an accounting system satisfactory to the Association, without limitation on the provision of Section 4.01 (a) of this Agreement, separate accounts with respect to the Project;

(c) with the assistance of the Western Provincial Council and the Urban Development Authority, together with participating local authorities to:

(i) open and maintain an escrow account with a financial intermediary satisfactory to the Association, for the purpose of making payments to the landfill operator;

(ii) commencing at least three months prior to the date the site is ready to receive wastes, make monthly deposits into the escrow account based on the projected tonnages of wastes and the cost-sharing formula agreed by the Colombo Municipal Council and the participating local authorities; and

(iii) maintain the balance in the escrow account at a level sufficient to cover three months of the operating expenses of the landfill;

(d) ensure implementation of environmental mitigation measures and a monitoring system satisfactory to the Association, for the Welisara landfill operation; and

(e) implement the plan and time-table satisfactory to the Association for the establishment of a dedicated source of funding for the operations of the Colombo sewerage system.

National Water Supply and Drainage Board

7. The Borrower shall cause the National Water Supply and Drainage Board to:

(a) maintain an NWSDB Project Implementation Unit with staff, responsibilities and resources satisfactory to the Association;

(b) establish and thereafter maintain under an accounting system satisfactory to the Association, without limitation on the provision of Section 4.01 (a) of this Agreement, separate accounts with respect to: (i) the Project, (ii) the operation and maintenance of the Colombo sewerage system after transfer of the system to the National Water Supply and Drainage Board;
(c) implement the plan and time-table satisfactory to the Association for the establishment of a dedicated source of funding for the operations of the Colombo sewerage system; and

(d) generate revenues from its sewerage operations at Ratmalana and Ekala/Ja-Ela, sufficient to cover the full cost of operation and maintenance of such sewer networks, and the amounts billed by the wastewater treatment plants.

Urban Development Authority

8. The Borrower shall cause the Urban Development Authority to:

(a) maintain a UDA Project Implementation Unit with staff, responsibilities and resources satisfactory to the Association; and

(b) establish and thereafter maintain under an accounting system satisfactory to the Association, without limitation on the provision of Section 4.01 (a) of this Agreement, separate accounts with respect to the Project.
SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

   (a) the term "eligible Categories" means Categories (1) through (6) 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 $2,500,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $1,700,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 4,000,000.

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.
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;

   (b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

   (c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

   (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, 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.
SCHEDULE 6

Terms and Conditions

Part A: CMC Agreement (Part A of the Project)

1. Amount : $12,900,000 equivalent
2. Interest rate : variable, not below AWDR (adjustable every 6 months)
3. Amortization period : 20 years including 6 years of grace
4. Foreign exchange risk : to be borne by the Borrower

CMC Agreement is to incorporate the provisions of paragraph 6 of Schedule 4 to this Agreement

Part B: NWSDB Agreement (Part B of the Project)

1. Amount : $9,800,000 equivalent
2. Interest rate : variable, not below AWDR (adjustable every 6 months)
3. Amortization period : 20 years including 6 years of grace
4. Foreign exchange risk : to be borne by the Borrower

NWSDB Agreement is to incorporate the provisions of paragraph 7 of Schedule 4 to this Agreement

Part C: UDA Agreement (Part C of the Project)

Amount : $15,600,000 equivalent

UDA Agreement is to incorporate the provisions of paragraph 8 of Schedule 4 to this Agreement
INTERNATIONAL DEVELOPMENT ASSOCIATION

CERTIFICATE

I hereby certify that the foregoing is a true copy of the original in the archives of the International Development Association.

[Signature]
FOR SECRETARY