

CONFORMED COPY

LOAN NUMBER 4231-MOR

Loan Agreement

(Second Municipal Finance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

COMMUNAL INFRASTRUCTURE FUND

Dated October 7, 1997

LOAN NUMBER 4231-MOR

LOAN AGREEMENT

AGREEMENT, dated October 7, 1997, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the COMMUNAL INFRASTRUCTURE FUND (the Borrower).

WHEREAS (A) Kingdom of Morocco (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 1 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan 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 Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 with the modification set forth below (the General Conditions), constitute an integral part of

this Agreement:

Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, or (g) by the date specified in paragraph 4 (c) of Schedule 3 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under subparagraphs (a) or (b) of said paragraph 4; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

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) "Beneficiary" means a provincial, prefectural or municipal administration of the Guarantor, an association of such administrations, or a public or private enterprise operating within any such administrations to which the Borrower proposes to make or has made a Subloan (as hereinafter defined);

(b) "Charter" means, collectively, the Guarantor's Dahir No. 1-92-5 dated August 5, 1992 promulgating Law 31-90 pertaining to the establishment and operations of the Borrower, its implementing Decree No. 2-90-351 dated December 14, 1992, the Guarantor's Dahir No. 1-96-100 dated August 2, 1996, promulgating Law 11-96 pertaining to the reorganization of the Borrower;

(c) "Dollar Tranche Loan" means the amount specified in Section 2.01 (a) of this Agreement;

(d) "First Category Subproject" means a Subproject with an important negative environmental impact;

(e) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period starts on January 1 and ends on December 31 in each calendar year;

(f) "Foreign Exchange Risk Coverage Scheme" means the scheme established pursuant to the letter No. 3-6816 dated July 11, 1997 from the Guarantor's Ministry of Finance to the Borrower, for the protection of the Borrower against the risk of foreign exchange losses in respect of the proceeds of the Loan;

(g) "free-limit Sub-loan" means a Sub-loan which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 2 (b) of Schedule 4 to this Agreement;

(h) "French Franc" and "FRF" each means the lawful currency of the Republic

of France;

(i) "French Franc Loan Tranche" means the amount specified in Section 2.01 (b) of this Agreement;

(j) "Loan Tranche" means either of the Dollar Loan Tranche or the French Franc Loan Tranche;

(k) "Performance Indicators" means the agreed Performance Indicators set forth in a letter of even date herewith to be utilized under the Project to measure the degree to which the Project objectives are being achieved;

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

(m) "Statement of Policy" means the statement of lending and investment policy number 4668 approved by the Directors of the Borrower on August 4, 1997, as amended to the date of this Agreement;

(n) "Subloan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to a Beneficiary for a Subproject (as hereinafter defined);

(o) "Subproject" means a specific development project to be carried out under Part A of the Project by a Beneficiary utilizing the proceeds of a Subloan; and

(p) "Technical Instruction" means the Borrower's internal instruction number 4669 dated August 4, 1997, setting forth the methodology and procedures of economic and environmental analysis applicable to appraisal of Subprojects, as hereinafter defined, by the Borrower, under Part A of the Project.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement: (a) an amount equal to thirty five million Dollars (\$35,000,000); (b) an amount equal to two hundred and five million French Francs (FRF205,000,000)

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Beneficiary under a Subloan to meet the reasonable cost of goods and works required for the Subproject in respect of which the withdrawal from the Loan Account is requested. No withdrawals shall be made in respect to payments made for expenditures under Part B of the Project.

(b) Notwithstanding the provisions of paragraph (a) above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed seven million Dollars (\$7,000,000), may be made on account of payments made for expenditures before that date but after January 1, 1997.

(c) The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure, under such terms and conditions as the Bank shall specify by notice to the Borrower, for expenditures for payments made by the Borrower of Subloans.

(d) The Borrower may, for the purposes of the Project, open and maintain in Dirhams a special deposit account in a financial institution on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the

Loan not withdrawn from time to time.

Section 2.05. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 2 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears on April 15 and October 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE III

Execution of the Project; Management and Operations of the Borrower

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 1 to this Agreement, and, to this end, shall carry out the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Charter and the Statement of Policy, and shall provide, promptly as needed, all the funds, facilities and other resources required for the Project.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Subloans shall be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 3 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Subproject in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and works required for each Subproject under Part A of the Project, and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:

(i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objectives thereof;

(ii) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (i) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report, including in particular the Guarantor's assessment of the ongoing reforms in local finances, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(iii) review with the Bank, by March 31, 1999, or such later date as the Bank shall request, the report referred to in subparagraph (ii) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank, not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and the Borrower, a plan designed to ensure the continued achievement of the Project's objectives; and

(ii) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial and Other Covenants

Section 4.01. The Borrower shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Subproject (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

(i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each Fiscal Year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank, as soon as available but in any case not later than six (6) months after the end of each such year: (A) certified copies of said financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

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

(i) maintain, in accordance with Section 4.01 of this Agreement, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (a) 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.

Section 4.03. The Borrower shall take all steps satisfactory to the Bank, including its participation in the Foreign Exchange Risk Coverage Scheme, as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.04. The provisions of Sections 4.05, 4.06 and 4.07 of the Loan Agreement between the Bank and the Borrower dated June 14, 1993 (Loan No. 3617 MOR - First Municipal Finance Project - Communal Infrastructure Fund) are hereby amended to read, respectively, as set forth in Sections 4.05, 4.06 and 4.07 of this Agreement.

Section 4.05. (a) Except as the Bank shall otherwise agree, the Borrower shall earn an annual net intermediation margin of not less than 1.90% for each Fiscal Year.

(b) Before June 30 in each Fiscal Year, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of such Year and the next following Year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) of this Section for the Fiscal Years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its interest rates and other financial charges) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The "annual net intermediation margin" shall be calculated as the difference between: (i) the quotient of interest and fee income of the Fiscal Year divided by the average value of loans at the beginning and at the end of the said Fiscal Year; and (ii) the quotient of interest and fee expenses of the Fiscal Year divided by the average value of borrowed funds including deposit liabilities at the beginning and at the end of the said Fiscal Year.

(ii) The term "interest income" means interest on loans and other financial assets reduced by the full provisioning of interest income on loans in arrears for more than ninety (90) days.

(iii) The term "fee income" means the Borrower's non-interest income from lending excluding fees from off-balance sheet financing facilities.

(iv) The term "value of loans" means the gross accounting value of loans less the amount allocated for loan losses in accordance with sound methods of evaluation acceptable to the Bank.

(v) The term "fee expenses" means non-interest charges on the bonds and other contractual liabilities issued by the borrower.

(vi) The term "value of borrowed funds" means the outstanding principal amount of borrowed funds.

(vii) The term "deposit liabilities" means Bank deposits as defined in the banking law.

Section 4.06. (a) Except as the Bank may otherwise agree, the Borrower shall maintain, for each Fiscal Year after its Fiscal Year ending on December 31, a ratio of total administrative expenses to average net value of total assets not higher than 0.90%.

(b) Before June 30 in each Fiscal Year, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of such Year and the next following Year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) of this Section for the Fiscal Years covered by such review, the Borrower shall promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

(i) The "ratio of total administrative expenses to average net value of total assets" shall be calculated as the quotient of administrative expenses of the Fiscal Year divided by the average accounting value of assets at the beginning and at the end of the said Fiscal Year.

(ii) The term "total administrative expenses" means all expenses related to the Borrower's personnel and other non-interest expenses and fees including depreciation and taxes paid by the Borrower other than income taxes.

(iii) The term "accounting value of assets" means the accounting value of total assets, including cash and the Borrower's account balances, outstanding loan balances, fixed assets, and intangible and other miscellaneous balance sheet assets calculated on a basis acceptable to the Bank.

Section 4.07. Except as the Bank shall otherwise agree, the Borrower shall maintain for each of its Fiscal Years after its Fiscal Year ending on December 31, 1997, a capital to risk-weighted assets (capital adequacy) ratio of not less than 8% calculated in accordance with the Guarantor's Central Bank prudential rules, including the Central Bank's letter No. 25/G/97 dated February 27, 1997.

Section 4.08. The Borrower shall:

(a) by December 31, 1997, carry out, with the assistance of consultants with qualifications and under terms of reference satisfactory to the Bank, and furnish to the Bank, for its review and comments, a study to identify the measures required to strengthen its management, operations and financial performance in order to develop a sustained competitive advantage in a competitive municipal-finance environment; and

(b) by September 30, 1998, adopt a development program designed to further the objectives of said program, and thereafter carry out the same, taking into consideration the conclusions and recommendations of the study referred to in paragraph (a) of this Section and the Bank's views on the matter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) The Charter or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement;

(b) The transformation of the Borrower into a Joint Stock Company shall not have taken place by December 31, 1998.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, any event specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Chief Executive Officer 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 Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For the Borrower:

Fonds d'Equipement Communal
1 rue Oued Beht
Angle avenue Omar Ibn Al Khattab
Agdal Rabat
Kingdom of Morocco

Telex:

36581 - FEC

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kemal Dervis

Regional Vice President
Middle East and North Africa

COMMUNAL INFRASTRUCTURE FUND

By /s/ El Mostafa Sahel

Authorized Representative

SCHEDULE 1

Description of the Project

The objectives of the Project are to increase the provision of basic municipal infrastructure services and to strengthen the Borrower's operations in a municipal finance system based on market mechanisms.

The Project consists of the following Parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

Part A: Municipal Infrastructure

The financing of municipal infrastructure projects through the provision of Subloans to Beneficiaries.

Part B: Institutional Development

The carrying out of a program to strengthen the organization, management and operations of the Borrower, including the provision therefor of staff training, technical assistance and equipment.

* * *

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

SCHEDULE 2

Interest and Principal Repayment Provisions

A. General Definitions

For the purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount of the Dollar Loan Tranche withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Dollar Fixed Base Rate; plus

(ii) Dollar Fixed Total Spread.

(c) From the date of withdrawal of each amount of each Disbursed Amount from the French Franc Loan Tranche withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a

rate equal to the applicable:

- (i) PIBOR Base Rate; plus
- (ii) PIBOR Total Spread.

(d) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

- (i) French Franc Fixed Base Rate; plus
- (ii) French Franc Fixed Total Spread.

3. For the purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount of the Dollar Loan Tranche is withdrawn:

- (i) one half of one percent (1/2 of 1%);
- (ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Dollar Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in single currency for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Dollar Fixed Total Spread" means, for each Disbursed Amount:

- (i) one-half of one percent (1/2 of 1%);
- (ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus
- (iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount; as reasonably determined by the Bank and expressed as a percentage per annum.

(e) "PIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the Paris interbank offered rate for six-month deposits in French Francs for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(f) "PIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount of the French Franc Loan Tranche is withdrawn:

(i) one half of one percent (1/2 of 1%);

(ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the Paris interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period; as reasonably determined by the Bank and expressed as a percentage per annum.

(g) "French Franc Fixed Base Rate" means, for each Disbursed Amount of the French Franc Loan Tranche, the equivalent of the Paris interbank offered rate for six-month deposits in single currency for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(h) "French Franc Fixed Total Spread" means, for each Disbursed Amount of the French Franc Loan Tranche:

(i) one-half of one percent (1/2 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the Paris interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount; as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Guarantor and the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount of the Dollar Loan Tranche, and of PIBOR Base Rate, PIBOR Total Spread, PIBOR Fixed Base rate and PIBOR Fixed Total Spread applicable to each Disbursed Amount of the French Franc Tranche, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Guarantor and the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Guarantor or the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each April 15 and October 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the twenty-fourth (24th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-eighteenth (1/18) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after October 15, 2012, the Borrower shall also pay on said

date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower and the Guarantor of the amortization schedule for such Disbursed Amount.

SCHEDULE 3

Procedures for and Terms and Conditions of Subloans

1. (a) Subloans shall be made in accordance with the requirements and other details, including those relating to Subproject criteria and appraisal and environmental assessment procedures and terms and conditions of Subloans, set forth or referred to in the Technical Instruction, as such Instructions shall be updated from time to time with the agreement of the Bank to ensure the continued achievement of the objectives of the Project.

(b) The individual amount of each Subloan made by the Borrower for any one Subproject shall not exceed 70% of the total cost of the Subproject.

(c) Except as the Bank may otherwise agree, the aggregate amount of the Subloans made available by the Borrower for any one Beneficiary shall not exceed the equivalent of \$5,000,000.

2. No expenditures for goods or works required for a Subproject shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Subloan for such Subproject shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Bank shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such Subloan; or

(b) the Subloan for such Subproject shall have been a free-limit Subloan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Bank shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Subloan. For the purposes of this Agreement, a free-limit Subloan shall be a Subloan for a Subproject: (A) in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$2,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan which have been or are being used for financing goods, works and services directly and materially related to such Subproject; or (B) which, pursuant to the Technical Instruction and as otherwise agreed with the Bank, does not require the preparation of an environmental impact assessment study of First Category before the carrying out thereof.

3. The ninety day limitation referred to in sub-paragraph 2 (a) of this paragraph shall not apply to expenditures to be financed under sub-loans in respect of which the applications and information required under paragraph 4 (a) and (b) of this Schedule, as the case may be, are received by the Bank not later than September 30, 1997.

4. (a) When presenting a Subloan (other than a free-limit Subloan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Beneficiary and an appraisal of the Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Subloan, including, when available, the schedule of amortization of the Subloan; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Subloan shall contain (i) a summary description of the Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and (ii) the terms and conditions of the Subloan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of

subparagraphs (a) and (b) of this paragraph shall be presented to the Bank on or before June 30, 2000.

5. Subloans shall be made on terms whereby the Borrower shall obtain rights adequate to protect the interests of the Bank and the Borrower, including the right to:

(a) require the Beneficiary to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and to maintain adequate records;

(b) require that: (i) the goods and works to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement; and (ii) such goods and works shall be used exclusively in the carrying out of the Subproject;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Beneficiary shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound practice and the relevant regulations of the Guarantor; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Subproject;

(f) require the Beneficiary to comply with any requirements and conditions for the protection of the environment as shall have been determined by the Borrower; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Loan upon failure by such Beneficiary to perform its obligations under its contract with the Borrower.

SCHEDULE 4

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 and revised in January and August 1996 (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: namely that for preference for domestically manufactured goods 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 Guarantor.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$500,000 equivalent per contract, and (b) works, estimated to cost less than \$3,000,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National/International Shopping

Goods estimated to cost less than \$150,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$150,000 equivalent per contract, may be awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Prior Review

With respect to each contract for: (a) goods estimated to cost the equivalent of \$500,000 or more; (b) works estimated to cost the equivalent of \$1,500,000 or more; and (c) sole source contracts, as well as the first two contracts under each of the works and goods categories, irrespective of the values, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of payments required under Subloans, and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement, provided, however, that notwithstanding the provisions of paragraph 2 (b) of Schedule 4 to this Agreement, payments under free-limit Subloans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(b) the term "Authorized Allocation" means an amount equivalent to \$5,800,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,900,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$20,000,000.

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 Bank 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 Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank from the Loan 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 Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan 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 Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank 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 Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan, minus the total amount of all outstanding special commitments entered into by the Bank 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank 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 Bank 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount

of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank 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 Bank, refund to the Bank such outstanding amount.

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

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

