

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4759 RO

Loan Agreement

(Mine Closure, Environmental and Socio-Economic Regeneration Project)

between

ROMANIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated January 28, 2005

LOAN NUMBER 4759 RO

LOAN AGREEMENT

AGREEMENT, dated January 28, 2005, between ROMANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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 (as amended through May 1, 2004) (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) "AZM" means Agentia Zonelor Miniere, the Borrower's National Agency for Development and Implementation of Reconstruction Programs for Mining Regions, established pursuant to Government Emergency Ordinance No. 64/1997, as amended, to facilitate the implementation of socio-economic regeneration programs in mining regions, or any successor thereto;

(b) "Beneficiary" means any person or entity eligible for the receipt of Micro-Credit under Part B.1 (b) of the Project, or any firm eligible for receipt of financial assistance for training incentives under Part B.1 (a) of the Project;

(c) “CGMC” means the Borrower’s Central Group for Mine Closure, established within MEC pursuant to Government Decision No. 738/2003, and MEC Order No. 692/2004, or any successor thereto;

(d) “Environmental Framework for Unidentified Mine Sites” means the framework describing the procedures, actions, and policies for assessment, mitigation, and monitoring of possible adverse environmental effects resulting from works to be done on mine sites and ancillary facilities, as adopted by MEC, satisfactory to the Bank, on October 15, 2004, as the same such framework shall be modified from time to time by agreement between the Borrower and the Bank;

(e) “Environmental Framework for Municipal Infrastructure” means the framework describing the procedures, actions, and policies for assessment, mitigation, and monitoring of possible adverse environmental effects resulting from works to be done on municipal infrastructure, as adopted by MEC, satisfactory to the Bank, on October 15, 2004, as the same such framework shall be modified from time to time by agreement between the Borrower and the Bank;

(f) “Environmental Management Plans” means the plans, prepared and adopted by MEC satisfactory to the Bank, describing the specific environmental mitigation, monitoring and institutional measures required for the identified mines to be closed under the Project; and such term shall also include the plans to be prepared, pursuant to the provisions of paragraph 5 of Part A of Schedule 5 to this Agreement, describing the specific environmental mitigation, monitoring and institutional measures required for mines and ancillary facilities proposed to be included under Part A of the Project; and the plans to be prepared and adopted by AZM, satisfactory to the Bank, pursuant to the provisions of Part E of Schedule 5 to this Agreement, describing the specific environmental mitigation, monitoring and institutional measures required for the municipal infrastructure facilities proposed to be upgraded under Part B.2 (b) of the Project;

(g) “ETIS” means the Employment Training and Incentive Scheme under Part B.1(a) of the Project;

(h) “ETIS Operational Manual” means the manual for the operation of the ETIS, under Part B.1 (a) of the Project;

(i) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(j) “Government Ordinance No. 40/2000” means the Ordinance of the Government of the Borrower No. 40/2000 “On Licensing Credit Agencies to Manage Funding for Micro-Credit,” as amended;

(k) “Grant Agreement” means an agreement entered or to be entered into between RSDF and a Recipient for an SDSMC Sub-project, or between AZM and a Recipient for an SGS Sub-project, or between AZM and a Recipient for Municipal Infrastructure Sub-project;

(l) “MEC” means the Borrower’s Ministry of Economy and Commerce, or any successor thereto;

(m) “MEWM” means the Borrower’s Ministry of Environment and Water Management, or any successor thereto;

(n) “Land Expropriation/Resettlement Framework” means the framework describing the procedures, actions, and policies for assessment, mitigation, and monitoring of possible land expropriation and/or resettlement resulting from works to be done on municipal infrastructure, as adopted by MEC, satisfactory to the Bank, on October 15, 2004, as the same such framework shall be modified from time to time by agreement between the Borrower and the Bank;

(o) “Micro-Finance Institution” means an institution eligible under Government Ordinance No. 40/2000 and other relevant legislation of the Borrower to administer micro-credit programs in the territory of the Borrower, and selected to provide Micro-Credits for the purposes of the Micro-Credit Scheme under Part B.1 (b) of the Project;

(p) “Micro-Finance Management Contract” means the contract between AZM and the Micro-Finance Institutions selected to provide Micro-Credits for the purposes of the Micro-Credit Scheme under Part B.1 (b) of the Project, setting forth the terms and conditions for administration of the Micro-Credit;

(q) “Micro-Credit Operational Manual” means the manual for the operation of the Micro-Credit Scheme under Part B.1 (b) of the Project;

(r) “MMSSF” means the Borrower’s Ministry of Labor, Social Solidarity and Family, or any successor thereto;

(s) “MOPF” means the Borrower’s Ministry of Public Finance, or any successor thereto;

(t) “Municipal Infrastructure Operational Manual” means the manual for the operation of the Municipal Infrastructure Scheme under Part B.2 (b) of the Project;

(u) “Municipal Infrastructure Support” means the support provided by AZM on a grant basis for a Municipal Infrastructure Sub-project under Part B.2 (b) of the Project;

(v) “PMU” means the Project Management Unit established within MEC for management of the implementation of Parts A and C.1 of the Project, and for consolidation of reports and financial accounts required to be maintained in respect of the Project;

(w) “PMU-SER” means the Project Management Unit established within AZM for the management of the implementation of Parts B and C.2 of the Project;

(x) “Procurement Plan” means the Borrower’s procurement plan, dated November 4, 2004, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated annually in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding annual periods (or longer) of Project implementation and to include estimated disbursements;

(y) “Recipient” means any group or entity eligible: (A) to receive and administer an SDSMC Grant out of the RSDF in accordance with the criteria set forth in the RSDF Operational Manual; or (B) to receive an SGS Grant in accordance with the criteria set forth in the SGS Operational Manual; or (C) to receive Municipal Infrastructure Support in accordance with the criteria set forth in the Municipal Infrastructure Operational Manual;

(z) “RSDF” means the Romanian Social Development Fund, established under the Law No. 129 dated June 30, 1998, as amended, as a public-interest, non profit entity with legal personality and enjoying administrative autonomy, or any legal successor thereto;

(aa) “RSDF Steering Committee” means the committee established under the Law No. 129/1998, as amended, and having as its purposes, inter alia, to establish RSDF strategy and policies, adopt regulations, and approve financing of Sub-projects;

(ab) “SDSMC Operational Manual” means the manual for the operation of the SDSMC under Part B.2 (a) of the Project;

(ac) “SDSMC” means the Social Development Scheme for Mining Communities implemented by RSDF under Part B.2 (a) of the Project;

(ad) “SDSMC Grant” means a grant made or proposed to be made by RDSF to a Recipient for the carrying out of an SDSMC Sub-project under Part B.2 (a) of the Project;

(ae) “SGS” means the Small Grants Scheme under Part B.2 (c) of the Project;

(af) “SGS Grant” means a small grant made or proposed to be made by AZM to a Recipient for the carrying out of a micro-project (SGS Sub-project) under Part B.2 (c) of the Project;

(ag) “SGS Operational Manual” means the manual for the operation of the SGS under Part B.2 (c) of the Project;

(ah) “Sub-project” means the activities eligible for financing under Parts B.2 (a), B.2 (b) and B.2 (c) of the Project in accordance with the criteria set forth in the SDSMC Operational Manual, the SGS Operational Manual, or the Municipal Infrastructure Operational Manual, as the case may be, and to be carried out by a Recipient utilizing an SDSMC Grant or an SGS Grant, or by a contractor for Municipal Infrastructure Support; and

(ai) “Special Accounts” means the accounts referred to in Section 2.02 (b) of this Agreement.

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, an amount equal to one hundred twenty million dollars (\$120,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services, training and incremental operating costs required for the Project and to be financed out of the proceeds of the Loan; and (ii) other expenditures incurred under the Project in respect of: (A) incentive payments made under Part B.1 (a) of the Project; (B) Micro-Credits; (C) SDSMC Grants; and (D) SGS Grants; all to the extent that such expenditures may be deemed eligible for financing in accordance with the provisions of Schedule 1 of this Agreement.

(b) The Borrower may, for the purposes of the project, open and maintain in Dollars separate special deposit accounts: (i) the Special Account A to be administered by PMU, for Parts A and C.1 of the Project; and (ii) Special Account B, to be administered by PMU-SER, for Parts B and C.2 of the Project, in a commercial bank or banks on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, each Special

Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be May 31, 2010, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1.00%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1.00%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "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.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollar for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1.00%); (B) 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 the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, 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 said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, the Borrower shall carry out Parts A and C.1 of the Project through MEC, and Parts B and C.2 of the Project through AZM, with due diligence and efficiency and in conformity with appropriate financial, technical, engineering, environmental and administrative 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 Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the implementation arrangements set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project (except Parts B.1 (a) and B.1 (b) thereof), and to be financed out of the proceeds of the Loan shall be governed by

the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) 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 Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, acting through PMU and PMU-SER, shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project; and

- (b) The Borrower, acting through PMU, shall:
- (i) have the financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 the respective financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such

statements by said auditors, of such scope and detail as the Bank shall have reasonably requested; and

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

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower through PMU and PMU-SER shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 expenditures; 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 expenditures submitted during the fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon the support the related withdrawals;

Section 4.02. (a) The Borrower, acting through PMU, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and

explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The date one hundred fifty (150) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Public Finance 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 Public Finance
17, Apolodor Street
Bucharest
Romania

Telex:	Facsimile:
11239	4021 312 6792

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Bucharest, Romania, as of the day and year first above written.

ROMANIA

By /s/ Ionel Popescu
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Anand Seth
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(a) under Parts A and C.1 of the Project	48,000	
(b) under Parts B and C.2 of the Project	908,000	
(2) Consultants' services, including audit		85% of foreign expenditures; and 75% of local expenditures
(a) under Parts A and C.1 of the Project	2,685,000	
(b) under Parts B and C.2 of the Project	9,564,450	
(3) Training		100% of foreign expenditures and 75% of local expenditures
(a) under Parts A and C.1 of the Project	112,500	
(b) under Parts B and C.2 of the Project	380,300	

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(4) Works		80%
(a) under Part A of the Project	55,280,000	
(b) under Part B.2 (b) of the Project	12,000,000	
(5) Incentive payments under Part B.1 (a) of the Project	8,000,000	80%
(6) Micro-Credits under Part B.1 (b) of the Project	11,000,000	100%
(7) SDSMC Grants under Part B.2 (a) of the Project	12,600,000	84%
(8) SGS Grants under Part B.2 (c) of the Project	2,630,250	84%
(9) Incremental Operating Costs		50%
(a) under Part C.1 of the Project	850,000	
(b) under Part C.2 of the Project	1,776,000	
(10) Unallocated	<u>2,165,500</u>	
TOTAL	<u>\$120,000,000</u>	

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;

(c) the term “Incremental Operating Costs” means: (i) expenditures incurred by the PMU, PMU-SER and RSDF on account of Project implementation, including salaries of the staff (other than civil servants) of the PMU, the PMU-SER and RSDF; office supplies and equipment; operating, maintenance and insurance costs for vehicles and office equipment; communication (including telephone and internet); rental, refurbishment and rehabilitation of offices; local travel costs, including per diem and accommodation; and other operating services (advertisement of bidding documents, translation); and (ii) expenditures incurred by AZM under Parts B.3 (c) and C.2 of the Project, on account of Project implementation, including operating costs for vehicles, communication (including telephone and internet), and local travel costs (including per diem and accommodation) for AZM staff; and (iii) RSDF Steering Committee fees and RSDF utilities; and

(d) the term “incentive payments” means payments by AZM to employers participating in the ETIS under Part B.1 (a) of the Project in respect of qualifying job creation activities, in accordance with the ETIS Operational Manual.

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

(a) payments made for expenditures prior to the date of this Agreement;

(b) any expenditures under any Category in the table in paragraph 1 above, unless the Bank has received payment in full of the front-end fee referred to in Section 2.04 of this Agreement;

(c) payments made for Micro-Credits under Category (6) in the table in paragraph 1 above until: (i) the Government Ordinance 40/2000 has been amended satisfactory to the Bank; (ii) revisions, satisfactory to the Bank, to the Micro-Credit Operational Manual have been agreed by the Borrower and adopted by AZM; and (iii) each Micro-Finance Institution selected shall have entered into a Micro-Finance Management Contract with AZM;

(d) expenditures under contracts for works under Category (4)(b) in the table in paragraph 1 above, until the Municipal Infrastructure Operational Manual has been approved by the Borrower and the Bank and adopted by AZM; and

(e) payments made for SGS Grants under Category (8) in the table in paragraph 1 above, until the SGS Operational Manual has been approved by the Borrower and the Bank and adopted by AZM.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for: (a) expenditures for training; (b) expenditures under contracts for goods costing less than \$100,000 equivalent each;

(c) expenditures under contracts for works costing less than \$200,000 equivalent each; (d) expenditures under contracts for services of individual consultants costing less than \$50,000 equivalent per contract; (e) expenditures under contracts for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (f) payments in respect of incremental operating costs; and (g) incentive payments under Category (5) of the table in paragraph 1 above; (h) Micro-Credits under Category (6) of the table in paragraph 1 above; (i) SDSMC Grants under Category (7) of the table in paragraph 1 above; (j) SGS Grants under Category (8) of the table in paragraph 1 above; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to strengthen the Government's ability to undertake mining sector reform by: (i) building MEC's capacity for closing uneconomic mining enterprises through support for closing complex mines and ancillary facilities in an environmentally sustainable manner; and (ii) providing support to AZM, RSDF, mining communities and local public authorities for socio-economic regeneration of the mining regions.

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

Part A: Mine Closure and Environmental Rehabilitation

1. Mine Closure

Provision of support to CGMC for: (a) the closure and environmental rehabilitation of mines and/or ancillary facilities at approximately 20 identified sites as well as other sites to be identified; and (b) post-closure monitoring and maintenance of closed mine sites.

2. Environmental Support

Provision of support (consisting of consultants' services and training) to MEC for improving environmental performance in the mining sector, including (a) preparation of a manual for implementation of an environmental management system; a manual for environmental protection procedures in the mining sector; and guidelines for integrated monitoring of environmental impacts generated by mining activities; and (b) implementation of an environmental monitoring pilot project in Calimani and Baia de Aries mine sites.

Part B: Socio-Economic Regeneration

Provision of support to AZM, PMU-SER and RSDF for implementation of measures to mitigate adverse social impact of mine closure and to revitalize economic activities in mining regions, including:

1. Support for job creation activities in mining regions, including:
 - (a) Employment and Training Incentives Scheme (ETIS). Provision through AZM of employment and training incentive payments to eligible employers in the mining regions to hire new workers.
 - (b) Micro-Credit Scheme. Establishment and operation by AZM of a Micro-Credit Scheme consisting of provision by Micro-Finance Institutions of Micro-Credit to eligible Beneficiaries in the mining regions.
 - (c) Workspace Centers. Financing of management contracts to administer the ten existing workspace centers and provide enterprise support services to mining communities and entrepreneurs in business planning and start-up.
2. Support to AZM and the RSDF for community capacity building and local development activities in the mining regions through:
 - (a) Social Development Schemes for the Mining Communities (SDSMC). Provision of Grants to eligible community groups in the mining regions through the RSDF for eligible community-based infrastructure, income generation, and social services Sub-projects, as well as provision of technical assistance and training for community capacity building.
 - (b) Municipal Infrastructure. Provision of support by AZM to local public authorities in the mining regions, on a grant basis, to finance technical assistance and works in order to upgrade municipal infrastructure identified through a process of community consultation and local development planning in mining localities.
 - (c) Small Grants Scheme (SGS). Provision of small grants to eligible Recipients by AZM for eligible micro-projects to improve the welfare, in particular, of disadvantaged groups (such as women, youth, children, and elderly) in the mining regions, and induce the growth of social capital among mining communities.
 - (d) Community Capacity Building. Provision of technical assistance and training to facilitate a process of community mobilization and dialogue among local stakeholders, to strategically plan, identify and select priority infrastructure and social service Sub-projects and micro-projects to be financed under Parts B.2 (b) and (c) of the Project.
3. Strengthening the institutional capacity of AZM, PMU-SER and RSDF to implement the Project, through:

(a) Social Impact Monitoring and Evaluation. Provision of support to AZM for carrying out of impact evaluation and other assessments under Part B of the Project.

(b) Public Information. Provision of consultancy services and public information materials to support AZM in maintaining effective communication with local communities in mining regions.

(c) Institutional Development and Training. Provision of support for capacity building of AZM, PMU-SER and RSDF; technical services and equipment for development of the AZM management information system; and other goods, including vehicles.

Part C: Institutional Support

1. Provision of support to PMU to implement Part A of the Project, consisting of consultants' services and training, audit, goods and incremental operating costs.
2. Provision of support to AZM, PMU-SER and RSDF to implement Part B of the Project, consisting of incremental operating costs.

* * *

The Project is expected to be completed by November 30, 2009.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Dollars</u>)
On each February 15 and August 15 beginning August 15, 2010 through February 15, 2022	5,000,000

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$250,000 equivalent per contract and works estimated to cost less than \$3,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding according to paragraphs 3.3 and 3.4 of the Procurement Guidelines.

2. Shopping. Goods and works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis subject to any prior review by the Bank as may be indicated in the Procurement Plan.

7. Procurement of Works, Goods and Services under Part B.2 (a) of the Project

Works, goods and services under sub-projects under Part B.2 (a) of the Project shall be procured in accordance with paragraph 3.17 of the Procurement Guidelines and the procedures set forth in the SDSMC Operational Manual.

8. Procurement of Works, Goods and Services under Part B.2 (c) of the Project

Works, goods and services under sub-projects under Part B.2 (c) of the Project shall be procured in accordance with paragraph 3.17 of the Procurement Guidelines and the procedures set forth in the SGS Operational Manual.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the record of justification for such contracts, referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines, shall be subject to Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

A. Responsibilities for Project Implementation and Supervision

1. The Borrower, through MEC, shall be responsible for overall Project implementation and shall:

(a) maintain the PMU until the completion of the Project with staff, resources and terms of reference satisfactory to the Bank, and which shall be responsible for implementation of Parts A and C.1 of the Project and for consolidating of all Project accounts;

(b) maintain the PMU-SER within AZM until the completion of the Project with staff, resources and terms of reference satisfactory to the Bank, and which shall be responsible for implementation of Parts B and C.2 of the Project;

(c) maintain a Project Steering Committee with composition and terms of reference satisfactory to the Bank which shall be responsible for Project oversight and policy guidance; and

(d) cause AZM and PMU-SER to cooperate with RSDF in implementation of Part B.2 (a) of the Project.

2. The Borrower shall, through MEC:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about July 31, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report 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

(c) review with the Bank, by September 30, 2007, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, 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's views on the matter.

3. The Borrower shall, through MEC, carry out the measures required under the Environmental Management Plans in a timely manner and in compliance with: (a) environmental standards satisfactory to the Bank; and (b) all applicable laws and regulations of the Borrower relating to health, safety and environmental protection.

4. With respect to mines proposed to be included under the Project, the Borrower shall, through MEC, ensure that all measures required under the Environmental Framework for Unidentified Mines are carried out, and shall prepare, and furnish to the Bank, the relevant environmental management plans for unidentified mines, describing the specific environmental mitigation, monitoring and institutional measures for the mines and ancillary facilities so identified, satisfactory to the Bank.

5. The Borrower, through MEC, shall undertake actions by March 30, 2005, to improve tailings management at identified mine sites and shall prepare, and provide to the Bank by June 30, 2005, a report describing the results of the actions so taken.

6. The Borrower, through MEC, shall prepare and provide to the Bank by December 31, 2005, a report on progress made by CGMC in improving mine closure procedures for mines not financed under the Project, including the application of procedures used by CGMC for closure of mines financed under the Project.

7. The Borrower, through MEC, shall prepare and discuss with the Bank by October 31 of each year progress on implementation of its Mining Sector Strategy for 2005-2009.

8. The Borrower, through MEC, shall establish a subsidy monitoring system, and shall prepare and discuss with the Bank, by October 31 each year, a report on the level of budgetary support provided to the mining companies, including transfers to cover: (a) operating losses; (b) capital allocations; (c) investments; (d) social subsidies (social allowances and severance payments); and (e) hidden subsidies through non-payment of taxes and new obligations to utilities and suppliers.

9. The Borrower, through MEC, shall take actions for the institutional strengthening of AZM, including management reorganization and appointment of management staff with terms of reference, qualifications and experience satisfactory to the Bank by June 30, 2005.

B. Implementation of SDSMC Program under Part B.2 (a) of the Project

1. The Borrower shall cause AZM to implement the SDSMC program through RSDf in accordance with the SDSMC Operational Manual as adopted by RSDf, and approved by the Borrower and the Bank, setting forth criteria and procedures for selection of Recipients and Sub-projects for SDSMC and defining terms and procedures applicable to assistance provided by RSDf under the Project, including a standard Grant Agreement referred to in paragraph 2 of this Part B of this Schedule 5 to this Agreement; and as such manual may be amended from time to time with the agreement of the

Borrower and the Bank. RSDF shall maintain the SDSMC Operational Manual at least until the completion of the Project, and not revoke, abrogate or substantially amend the SDSMC Operational Manual without the agreement of the Borrower and the Bank.

2. The Borrower shall cause AZM through RSDF to ensure that the mining community that is a Recipient of an SDSMC Grant shall carry out the respective SDSMC Sub-project in accordance with the approved agreement, timetable and budget.

C. Implementation of the Employment Training and Incentive Scheme under Part B. 1 (a) of the Project

1. The Borrower shall cause AZM to implement the Employment Training and Incentive Scheme in accordance with the ETIS Operational Manual.

2. AZM shall maintain the ETIS Operational Manual at least until the completion of the Project, and shall not revoke, abrogate or substantially amend the ETIS Operational Manual without the agreement of the Borrower and the Bank.

D. Implementation of the Micro-Credit Scheme under Part B.1 (b) of the Project

1. The Borrower shall cause AZM to introduce the appropriate amendments to the Micro-Credit Operational Manual upon adoption of the amendment to Government Ordinance No. 40/2000 in a manner satisfactory to the Bank. AZM shall thereafter maintain such manual until the completion of the Project or the end of the closing date of the Micro-Credit contracts, whichever is the later date, and not revoke, abrogate or substantially amend the Micro-Credit Operational Manual without the agreement of the Borrower and the Bank.

2. The Borrower shall cause AZM to implement the Micro-Credit Scheme in accordance with the Micro-Credit Operational Manual.

E. Implementation of the Municipal Infrastructure Sub-Component under Part B.2 (b) of the Project

1. The Borrower, through AZM, shall ensure that Part B.2 (b) of the Project shall be implemented in accordance with the Municipal Infrastructure Operational Manual, which shall include a chapter on environmental assessment and management, satisfactory to the Bank.

2. AZM shall maintain the Municipal Infrastructure Operational Manual at least until the completion of the Project, and shall not revoke, abrogate or substantially amend the manual without the agreement of the Borrower and the Bank.

3. The Borrower, through AZM, shall ensure that proposals for Sub-projects under Part B.2 (b) of the Project shall be solicited and evaluated in accordance with the principles and procedures set forth in the Municipal Infrastructure Operational Manual.

4. Municipal Infrastructure Support shall be approved only for infrastructure that: (i) is owned by local public authorities; (ii) is in compliance with the procedures set forth in the Environmental Framework for Municipal Infrastructure and Land Expropriation/Resettlement Framework; and (iii) has been identified through a community-based planning process.

5. Proposed award of contracts for approved Municipal Infrastructure Sub-projects shall be furnished to the Bank for prior review and approval.

F. Implementation of the Small Grants Scheme under Part B.2 (c) of the Project

1. The Borrower shall cause AZM to implement the SGS in accordance with the SGS Manual. AZM shall maintain the SGS Manual at least until the completion of the Project, and not revoke, abrogate or substantially amend the SGS Operational Manual without the agreement of the Borrower and the Bank.

2. The Borrower, through AZM, shall ensure:

(a) that proposals for SGS Grants from the Small Grants Scheme under Part B.2 (c) of the Project shall be solicited and evaluated in accordance with the principles and procedures set forth in the SGS Operational Manual;

(b) that the first three contracts for the award of SGS Grants (one each for goods, works, and services) from each of the six mining regions shall be furnished to the Bank for review and approval; and

(c) that the award of SGS Grants shall be made by AZM in accordance with the standard agreement form included in the SGS Operational Manual, whereby: (i) the proposal for the carrying out of the Sub-project for which the SGS Grant is awarded is adequately described; (ii) the Recipient of a SGS Grant shall be required to carry out such proposal as described and within the budgetary limits set forth in the contract and to procure the works, goods and services required for the carrying out of the proposal in accordance with the procedures set forth or referred to in the agreement; and (iii) AZM shall be empowered, upon failure by such Recipient to carry out its obligations under the agreement, to terminate such agreement, cease disbursement of the grant provided thereunder and request other appropriate remedies available under the law.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) (a), (2) (a), (3) (a), (4) (a) and (9) (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Special Account A; and Categories (1) (b), (2) (b), (3) (b), (4) (b), (5), (6), (7), and (8) and (9) (b) set forth in said table in respect of Special Account B;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Loan 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 to be withdrawn from the Loan Account and deposited into the respective Special Accounts pursuant to paragraph 3 (a) of this Schedule, which shall be \$2,000,000 in respect of Special Account A operated by PMU, and \$2,000,000 in respect of the Special Account B operated by PMU-SER.

2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule, including local currency payments made directly to suppliers and contractors through corresponding transfer accounts opened in commercial banks, in accordance with rules and procedures acceptable to the Bank.

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

(a) For withdrawals of the Authorized Allocation, the Borrower through PMU and PMU-SER shall furnish to the Bank a request or requests for deposit into the respective 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 respective Special Account such amount or amounts as the Borrower through PMU and PMU-SER shall have requested.

- (b) (i) For replenishment of the respective Special Accounts, the Borrower through PMU and PMU-SER shall furnish to the Bank requests for deposits into the respective Special Account at such intervals as the Bank shall specify.
- (ii) Prior to or at the time of each such request, the Borrower through PMU and PMU-SER 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 respective 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 respective 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 through PMU and PMU-SER out of the respective Special Accounts, the Borrower through PMU and PMU-SER 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 any Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower through PMU and / or PMU-SER 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, through the PMU, 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 Accounts;

(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 allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding

special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions 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 for such Special Account 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 respective 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 any 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 through PMU and PMU-SER shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the respective 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 any Special Account shall be made until the Borrower through PMU and PMU-SER 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 any 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 Accounts.

(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.