

November 24, 1999

Mr. Boris Stojmenov
Minister of Finance
Ministry of Finance
Gruev 14 91000
Skopje
Macedonia

Re: Second Private Sector Development Project
(Loan No. 4240 MK)
Amended and Restated Loan Agreement

Excellency:

We refer to a Loan Agreement (Second Private Sector Development Project) dated December 19, 1997, (the Loan), between the Borrower and the International Bank for Reconstruction and Development (the Bank) and to your letter dated October 4, 1999 requesting certain amendments to the Loan Agreement. We hereby confirm the Bank's agreement to the amended and restated Loan Agreement set out in the Annex to this letter.

Please confirm your agreement with the foregoing by signing, dating and returning to us the enclosed copy of this letter. This amendment shall become effective upon the signature and entry into force of a Fiscal Agency Agreement (as defined in the amended and restated Loan Agreement) satisfactory to the Bank.

Sincerely,

By /s/ Ajay Chhibber
Director
Country Department VI
Europe and Central Asia Region

AGREED:

BORROWER

By /s/ Boris Stojmenov
Minister of Finance

Date: December 7, 1999

ANNEX

LOAN NUMBER 4240 MK

Amended and Restated
Loan Agreement

(Second Private Sector Development Project)

between

Former Yugoslav Republic of Macedonia (the Borrower)

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank)

Dated December 19, 1997

LOAN NUMBER 4240 MK

LOAN AGREEMENT

AGREEMENT, dated December 19, 1997, between the Borrower and the Bank, as amended and restated.

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

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 modifications set forth in Schedule 7 to this Agreement (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) "Apex Unit" means the unit established within NBM and referred to in paragraph 1 of Schedule 5 to this Agreement;

(b) "Beneficiary" means any eligible Private Enterprise (as hereinafter defined) duly established and operating under the laws and regulations of the Borrower, or eligible individual farmer to which a Participating Financial Institution (as hereinafter defined) proposes to make or has made a Sub-loan;

(c) "Deutsche Mark" and "DEM" mean the lawful currency of Germany, but if such currency shall be replaced with the Euro, then "Deutsche Mark" and "DEM" shall be replaced by "Euro" for purposes of the Loan, at the ratio in effect as of the date of such replacement;

(d) "Fiscal Agency Agreement" and "Fiscal Agent" mean, respectively, an agreement entered into by the Borrower, through its Ministry of Finance, and the NBM, pursuant to which the NBM shall act as a fiscal agent of the Borrower for the purposes of carrying out the Project, and the NBM acting as the fiscal agent of the Borrower in accordance with the terms of the Fiscal Agency Agreement.

(e) "NBM" means the National Bank of the Borrower;

(f) "Participating Financial Institutions" or "PFIs" means the banks and other financial institutions established and operating according to the applicable laws and regulations of the Borrower and approved by the Bank for participation in the Project, with which the Borrower, through the Apex Unit, has entered into a Subsidiary Financing Agreement;

(g) "Private Enterprise" means any commercial entity registered according to

the applicable laws and regulations of the Borrower, in which the management is not directly or indirectly controlled by the Borrower, and more than 50% of the proprietary interest therein is held by persons or entities other than the Borrower, the local authorities or any subdivision thereof, or entities controlled by the Borrower;

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

(i) "Sub-loan" means a loan made or proposed to be made by a PFI out of the proceeds of the Loan to a Beneficiary for a Sub-project;

(j) "Sub-project" means a specific development project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan; and

(k) "Subsidiary Financing Agreement" and "Subsidiary Finance" mean, respectively, any agreement entered into or to be entered into between the Borrower, through the Apex Unit acting as Fiscal Agent of the Borrower in accordance with the Fiscal Agency Agreement, and a Participating Financial Institution pursuant to paragraph 2 (a) of Schedule 5 to this Agreement, and any loan made pursuant to a Subsidiary Financing 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 forty-five million Deutsche Mark (DEM 45,000,000).

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and works required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Deutsche Marks a special deposit account in a bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 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 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. (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 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the LONDON

interbank offered rate for six-month deposits in Deutsche Marks 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) one-half of one percent (1/2 of 1%); (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 2.05, 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 amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The 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 2.06. Interest and other charges shall be payable May 15 and November 15 in each year.

Section 2.07. 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out or cause to be carried out the Project with due diligence and efficiency and in conformity with appropriate administrative, banking, economic, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purpose of carrying out the Project, the Borrower shall make available the equivalent of the proceeds of the Loan under Subsidiary Financing Agreements acceptable to the Bank to be entered into between the Borrower and each Participating Financial Institution, under terms and conditions satisfactory to the Bank, and which shall include, without limitation, those set forth in Schedule 5 to this Agreement.

(c) The Borrower shall exercise its rights under the Fiscal Agency Agreement and any Subsidiary Financing Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Fiscal Agency Agreement and any Subsidiary Financing Agreement or any provision thereof.

(d) 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 or cause to be carried out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise

agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Subsidiary Financing Agreement 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 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. 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 for the future operation of the Project; and

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

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause NBM and the Apex unit to maintain separate records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project:

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the 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, 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 and accounts and the audit thereof as the Bank shall 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 shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, or cause to be retained until at least one (1) year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special 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 (b) of this Section and that the report of such audit contains a separate opinion by said auditors

as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Except as the Bank shall otherwise agree, the Borrower shall, through the Apex Unit, in respect of any repayments of principal of Subsidiary Finances utilized in the making of Subloans:

(a) open, by the date on which it shall receive the first such repayment, and, thereafter, maintain, in a bank, acceptable to the Bank, a separate account on terms and conditions satisfactory to the Bank; and

(b) upon receipt of each such repayment, credit the same to the said separate account. All amounts so credited shall be utilized, to the extent they are not yet required to meet the Borrower's repayment obligations under this Agreement, exclusively to finance, through the PFIs, specific Sub-projects on similar terms and conditions as those applicable to the Sub-loans.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that at least two Subsidiary Finance Agreements under the Project have been duly executed on behalf of and are legally binding upon, the parties thereto in accordance with the terms thereof.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of 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 Finance
Dame Gruev 14
91000 Skopje

Telex:

51119

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:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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.

THE BORROWER

By /s/ L. Acevska

Authorized Representative

THE BANK

By /s/ A. Chhibber

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Category 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:

| Category | Amount of the Loan Allocated (Expressed in DEM) | % of Expenditures to be Financed |
|-----------------|--|---|
| (1) Goods | 36,000,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally |
| (2) Works | 7,000,000 | 80% |
| (3) Unallocated | 2,000,000 | |
| TOTAL | 45,000,000 ===== | |

2. For the purposes of this Schedule:

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

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

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

made:

(a) in respect of payments made for expenditures (i) under Category (1) prior to the date of the Loan Agreement except that withdrawals, in an aggregate amount not to exceed DEM 4,000,000 may be made on account of payments made for expenditures before that date but after May 1, 1997; and (ii) under Category (2) prior to the date of the Amended and Restated Loan Agreement except that withdrawals in an aggregate amount not to exceed DEM 2,557,403.53 may be made on account of payments made before that date but after February 10, 1998 provided that the Bank determines, following a case-by-case review of each individual contract to be carried out by the Bank after the date of this Amended and Restated Loan Agreement and notwithstanding any no-objection given by the Bank prior to the date of the Amended and Restated Loan Agreement, that such works have been procured in a manner satisfactory to the Bank; and

(b) in respect of payments for expenditures under a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods and works under contracts not exceeding DEM 1,500,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower."

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) promote the growth of the private sector, including private farmers, through financing such productive facilities and resources as will contribute to increase exports and improve enterprise productivity and competitiveness; and (ii) stimulate the development of competition in the credit market and the introduction of safe and sound banking practices.

The Project consists of the establishment and operation of a credit facility for the financing, through the provision of Sub-loans by PFIs to eligible private enterprises and private farmers, of Sub-projects, subject to such modifications as the Borrower and the Bank may agree upon from time to time to achieve such objectives.

* * *

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

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in Deutsche Mark)* |
|-------------------|---|
| May 15, 2003 | 1,155,000 |
| November 15, 2003 | 1,175,000 |
| May 15, 2004 | 1,195,000 |
| November 15, 2004 | 1,220,000 |
| May 15, 2005 | 1,240,000 |
| November 15, 2005 | 1,260,000 |
| May 15, 2006 | 1,280,000 |
| November 15, 2006 | 1,305,000 |
| May 15, 2007 | 1,325,000 |
| November 15, 2007 | 1,350,000 |
| May 15, 2008 | 1,375,000 |
| November 15, 2008 | 1,395,000 |
| May 15, 2009 | 1,420,000 |
| November 15, 2009 | 1,445,000 |
| May 15, 2010 | 1,470,000 |
| November 15, 2010 | 1,495,000 |
| May 15, 2011 | 1,520,000 |

| | |
|-------------------|-----------|
| November 15, 2011 | 1,550,000 |
| May 15, 2012 | 1,575,000 |
| November 15, 2012 | 1,605,000 |
| May 15, 2013 | 1,630,000 |
| November 15, 2013 | 1,660,000 |
| May 15, 2014 | 1,685,000 |
| November 15, 2014 | 1,715,000 |
| May 15, 2015 | 1,745,000 |
| November 15, 2015 | 1,775,000 |
| May 15, 2016 | 1,805,000 |
| November 15, 2016 | 1,840,000 |
| May 15, 2017 | 1,870,000 |
| November 15, 2017 | 1,920,000 |

* The figures in this column represent the amount in Deutsche Mark to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

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 Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C, 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. Grouping of Contracts

To the extent practicable, contracts for goods and works shall be grouped into bid packages estimated to cost the equivalent of DEM 1,500,000 or more each.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost DEM 1,500,000 equivalent or less per contract and DEM 30,000,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Competitive Bidding

Works estimated to cost less than DEM 1,500,000 equivalent per contract, up to an aggregate amount not to exceed DEM 5,800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. Commercial Practices

Contracts for the procurement of goods estimated to cost less than DEM 150,000 equivalent per contract and DEM 2,000,000 equivalent or less in the aggregate may be awarded in accordance with established commercial practices of the Beneficiary acceptable to the Bank.

4. Procurement of Small Works

(a) Works estimated to cost less than DEM 75,000 equivalent per contract, up

to an aggregate amount not to exceed DEM 1,000,000 equivalent, may be procured under lump-sum, fixed-price contracts 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.

(b) Works procured under paragraph 3 (a)(ii) of Schedule 1 to this Agreement costing less than DEM 1,100,000 equivalent per contract up to an aggregate amount (in respect of seven contracts entered into as at the date of this Amended and Restated Loan Agreement) not to exceed DEM 3,200,000 equivalent, may be procured in accordance with paragraph C. 4 (a) above.

5. Direct Contracting

Goods which are of proprietary nature may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to (i) each contract for goods estimated to cost the equivalent of DEM 1,500,000 or more; (ii) the first three contracts for works awarded in accordance with Part C.2 of this Schedule and (iii) the first three contracts for goods awarded in accordance with Part C.3 of this Schedule (if awarded under competitive bidding procedures) to be financed by each PFI, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) each contract for goods awarded in accordance with the provisions of Part C.5 of this Schedule; and (ii) the first three contracts for goods awarded in accordance with Parts C.1, C.3 (if awarded under shopping procedures) and C.4 of this Schedule, the following procedures shall apply:

(i) prior to the execution of any contract procured under direct contracting, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(ii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

SCHEDULE 5

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement.

1. The Project shall be carried out by the Borrower with the assistance of the NBM. For this purpose, the Borrower shall maintain or cause to be maintained within NBM:
(a) a separate unit (the Apex Unit), with staff and other resources and terms of

reference satisfactory to the Bank, responsible for the carrying out of the Project; and (b) arrangements, satisfactory to the Bank, with NBM, pursuant to which NBM shall continue to assist the Borrower in determining the compliance by PFIs with the conditions set forth in Part B of the Annex to this Schedule.

2. For the purpose of carrying out the Project, the Borrower shall, through the Apex Unit:

(a) relend to the PFIs the equivalent of the proceeds of the Loan under Subsidiary Financing Agreements entered into or to be entered into between the Borrower acting through the NBM as its Fiscal Agent and each such PFI, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in the Annex to this Schedule;

(b) monitor the overall execution of the Project and the carrying out by the PFIs of obligations under their respective Subsidiary Financing Agreements in accordance with policies and procedures satisfactory to the Bank; and

(c) take or cause to be taken all action necessary or appropriate on its part to enable the PFIs to perform in accordance with the provisions of their respective Subsidiary Financing Agreements all the obligations of the PFIs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory 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 March 31, 1999, 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 June 30, 1999, 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.

ANNEX TO SCHEDULE 5

Principal Terms and Conditions of the Subsidiary Financing Agreements

The principal terms and conditions set forth in this Schedule shall apply for the purposes of paragraph 2 (a) of Schedule 5 to this Agreement.

A. Terms:

1. The principal amount to be relend out of the proceeds of the loan to a PFI under its respective Subsidiary Financing Agreement shall be: (a) denominated in Deutsche Marks in accordance with the applicable laws and regulations of the Borrower; and (b) the equivalent of the aggregate amount of the principal of all Sub-loans made by the PFI out of the proceeds thereof.

2. The Subsidiary Finance shall be: (a) charged, on the principal amount thereof withdrawn and outstanding from time to time, interest, during each three-month period of each calendar year, at a rate equal to the rate specified in Section 2.05 (a) of this Agreement plus a margin, calculated on the basis of guidelines acceptable to the Bank; and (b) repaid in accordance with an amortization schedule pursuant to which each portion thereof utilized in the making of a Sub-loan shall have a maturity calculated to conform to the amortization schedule applicable to such Sub-loan.

3. The right of a PFI to use the proceeds of its respective Subsidiary Finance may be: (a) suspended, in whole or in part, upon failure of such PFI to perform any of its obligations under its respective Subsidiary Financing Agreement, to continue to be in compliance with all legal and regulatory requirements applicable to its operations or to meet any of the requirements set forth in Section B.1 of this Annex to Schedule 5; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of ninety (90) days.

B. Conditions:

1. A Subsidiary Financing Agreement may be entered into with a banking institution, duly established and operating under the laws of the Borrower, which the Borrower, with the assistance of NBM pursuant to the arrangements referred to in paragraph 2 (b) of Schedule 5 to this Agreement, shall have determined, and the Bank shall have agreed, that such banking institution:

(a) has provided a quarterly certificate of compliance from NBM stating that the PFI is in general compliance with all legal and regulatory requirements applicable to its operations;

(b) has presented an acceptable audit report prepared by an internationally recognized audit firm in accordance with International Accounting Standards ("IAS") which (i) covers two full years of operations, (ii) incorporates a loan and investment portfolio review, and (iii) certifies the PFI's compliance with the prudential requirements of the NBM and those required by the Bank relating to capital adequacy, large exposures, connected lending and foreign currency exposures;

(c) has been in existence and has produced operating results for a minimum of two years;

(d) has minimum share capital (as required by the NBM) equivalent to DEM 15 million by end September 1999, DEM 18 million by end April 2000, and DEM 21 million by end April 2001;

(e) has a minimum risk-weighted capital adequacy ratio (as defined by the Basle Committee on Banking Supervision) of at least 8 percent of its capital base;

(f) has exposure to any one borrower or group of connected borrowers (as defined below) as a percent of its equity capital of no more than 40 percent by year-end 1999, 35 percent by year-end 2000, and 30 percent by year-end 2001;

(g) has aggregate exposure to insiders (defined as Council members, members of the Management Board, employees in a management position and shareholders with voting rights in excess of 3 percent) of no more than 80 percent of equity capital as of year-end 1999, 60 percent as of year-end 2000 and 40 percent as of year-end 2001;

(h) has, at any time, aggregate net foreign currency exposure (defined as the difference between total foreign currency assets and total foreign currency liabilities) of not more than 25 per cent of its equity capital;

(i) has, at any time, aggregate exposure to all single borrowers to which individually its exposure exceeds 10 per cent of its equity capital, of not more than 300 per cent of its equity capital;

(j) is operating pursuant to investment and lending policies and procedures which the Bank and NBM pursuant to paragraph 2 (b) of Schedule 5 to this Agreement shall have judged acceptable, and has undertaken to maintain said policies and procedures;

(k) has a satisfactory financial structure, determined, inter alia, on the basis of risk-based capital adequacy criteria satisfactory to the Bank, policies and performance, and the organization, management, staff and other resources required for the efficient carrying out of its operations, including its activities to be undertaken under the Project;

(l) has established a credit committee and a technical unit in accordance

with, and for the purposes set forth in paragraph 2 (c) hereof;

(m) for the purposes of this sub-section I.B.1, the term "International Accounting Standards" or "IAS" means the accounting standards issued or endorsed by the International Accounting Standards Committee and the term "equity capital" or "capital" or "net worth" has the meaning set forth in the Basle Capital Accord of the Bank for International Settlements; and

(n) for the purposes of this sub-section I.B.1, the term "connected borrower" means two or more natural or legal persons who constitute a single risk to such banking institution as (A) one of them, directly or indirectly, has control over the other(s); or (B) they are so interconnected that, if one of them were to experience financial problems, the other(s) would be likely to encounter repayment difficulties.

2. Each Subsidiary Financing Agreement shall contain provisions pursuant to which the respective PFI shall undertake to:

(a) carry out its activities under the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in paragraph 1 (b) hereof, and to provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) (i) make Sub-loans to Beneficiaries on the terms and conditions set forth in the Attachment to this Annex; (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Bank, comply with its obligations under its respective Subsidiary Financing Agreement and achieve the purposes of the Project; (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Apex Unit; and (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, in accordance with criteria and procedures satisfactory to the Bank and the Borrower;

(c) maintain, with staff and other resources and terms of reference, satisfactory to the Bank and the Apex Unit: (i) a credit committee to be responsible for the evaluation and approval of Sub-loan applications; and (ii) a technical unit to be responsible for the appraisal and supervision of the carrying out of Sub-projects;

(d) (i) exchange views with, and furnish all such information to the Bank or the Apex Unit, as may be reasonably requested by the Bank, the Borrower, or the Apex Unit, with regard to the progress of its activities under the Project, the performance of its obligations under its respective Subsidiary Financing Agreement, and other matters relating to the purposes of the Project; and (ii) promptly inform the Bank and the Apex Unit of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Financing Agreement; and

(e) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (iii) 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, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Bank shall have reasonably requested; and (iv) furnish to the Bank such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank shall from time to time reasonably request.

ATTACHMENT TO THE ANNEX TO SCHEDULE 5

Terms and Conditions of the Sub-loans

The provisions of this Attachment shall apply for the purposes of paragraph 2 (b) (i) of Part B of the Annex to Schedule 5 to this Agreement:

1. The principal amount of each Sub-loan made out of the proceeds of the Loan shall: (a) be denominated in Deutsche Marks, in accordance with the applicable laws and regulations of the Borrower; (b) be the equivalent in Deutsche Marks (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and works financed out of such proceeds for the Sub-project; and (c) unless the Bank shall otherwise agree, not exceed the equivalent of DEM 2,250,000.

2. Each Sub-loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate determined by the PFI making such Sub-loan in accordance with its investment and lending policies and practices referred to in paragraph 1 (h) of Part B of the Annex to Schedule 5 of this Agreement; and (b) made for a period determined pursuant to said policies and practices but which shall be not less than one (1) and not more than ten (10) years, inclusive of an appropriate grace period of up to three (3) years.

3. No expenditures for goods and works required for a Sub-project shall be eligible for financing out of the proceeds of the loan unless:

(a) the Sub-loan for such Sub-project shall have been approved by the Bank and such expenditures shall have been made not earlier than 180 days prior to the date on which the Bank shall have received the application and information required under paragraph 4 (a) of this Attachment in respect of such Sub-loan, or

(b) the Sub-loan for such Sub-project shall have been a free-limit Sub-loan (as hereinafter defined) for which the Bank shall have authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than 180 days prior to the date on which the Bank shall have received the request and information required under paragraph 4 (b) of this Attachment in respect of such free-limit Sub-loan. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan for a Sub-project to be made by each respective PFI in an amount to be financed out of the proceeds of the Loan which (when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan, the proceeds of which have been or are being used for financing goods directly and materially related to such Sub-project) shall not exceed the maximum amount determined from time to time by the Bank and notified to the Borrower and each respective PFI.

4. (a) When presenting a Sub-loan, other than a free-limit Sub-loan to the Bank for approval, the PFI shall furnish to the Bank, through the Apex Unit, an application, in form satisfactory to the Bank, together with: (i) a description of the Beneficiary; (ii) the appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (iii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iv) any such other information as the Bank shall reasonably request.

(b) Each request for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Beneficiary and the Sub-project, 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 Sub-loan, 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, 2001, or such later date as the Bank shall establish.

5. Sub-loans shall be made to Beneficiaries who each shall have established to the satisfaction of the PFI making the Sub-loan, on the basis of guidelines acceptable to the Bank that:

(a) in respect of a Beneficiary which is a private enterprise, it is creditworthy, and has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations; and

(b) in respect of a Beneficiary which is a private farmer, it is creditworthy, and has satisfactory financial and other resources required for the

efficient carrying out of farming activities to be carried out under the Sub-project.

6. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with guidelines satisfactory to the Bank, to be:

(a) technically feasible and economically, financially and commercially viable, with expected financial rate of return of not less than 15%;

(b) in conformity with the applicable environmental regulations and standards of the Borrower and the Bank's policies on environmental assessment; and

(c) operated in accordance with a satisfactory business plan, and a financing plan covering the necessary additional financing for the components not financed by a Sub-loan.

7. Sub-loans shall be made on terms whereby the PFI making the Sub-loan shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Borrower and the Bank, including the right to:

(a) require the Beneficiary to carry out its Sub-project with due diligence and efficiency and in conformity with appropriate technical, economical, financial and commercial practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) require that the goods and works to be financed out of the proceeds of the Loan to be procured in accordance with the provisions of Schedule 4 to this Agreement, and use any such goods exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Bank, or the Apex Unit on behalf of the Borrower, if the Bank, the Borrower, or the Apex Unit shall so request, the goods and the sites, works, plans and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to 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) require each Beneficiary, other than private farmers, to: (i) have its financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the PFI; and (ii) furnish to the PFI, as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of its financial statements for such year as so audited, and the report of such audit by said auditors, of such scope and in such detail as the PFI shall have reasonably requested;

(f) in respect of Beneficiaries require the Beneficiary to implement its business plan, referred to in paragraph 6 (c) of this Attachment with due diligence and efficiency and take all necessary action to achieve the objectives thereof, and carry out and operate the Sub-project in accordance with appropriate health, safety and environmental standards, satisfactory to the Bank;

(g) obtain all such information as the Bank, the Borrower, or the Apex Unit 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 Sub-project; and

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

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category(ies)" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and works 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, provided, however, that notwithstanding the provisions of paragraph 2 (b) of Schedule 5 to this Agreement, payments for expenditures to be financed out of the proceeds of free limit Sub-loans 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

(c) the term "Authorized Allocation" means an amount equivalent to DEM 4,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the 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 a deposit or deposits 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 Category, 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; or

(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 allocated to the eligible Category, less the amount of any outstanding special commitment 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 Category 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.

SCHEDULE 7

Modifications of General Conditions

1. The words "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" set forth at the end of Section 6.03 of the General Conditions are deleted and the following is substituted therefor:

"or (f) by the date specified in paragraph 4 (c) of the Attachment to the Annex to Schedule 5 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; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be canceled."

2. Section 6.03 of the General Conditions 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 (30) 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, 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.

