

CONFORMED COPY

LOAN NUMBER 3590 KO

KWANGJU

(Kwangju and Seoul Sewerage Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

KWANGJU CITY GOVERNMENT

Dated May 17, 1993

LOAN NUMBER 3590 KO

KWANGJU PROJECT AGREEMENT

AGREEMENT, dated May 17, 1993, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and KWANGJU CITY GOVERNMENT (Kwangju).

WHEREAS: (A) by the Loan Agreement of even date herewith between Republic of Korea (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred and ten million dollars (\$110,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Kwangju agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and Kwangju, a portion of the proceeds of the loan provided for under the Loan Agreement will be relented to Kwangju on the terms and conditions set forth in the Kwangju Subsidiary Loan Agreement; and

WHEREAS Kwangju, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Kwangju declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, engineering and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

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

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.03. Kwangju shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Kwangju Project Agreement and Part A of the Project.

Section 2.04. Kwangju shall duly perform all its obligations under the Kwangju Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, Kwangju shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Kwangju Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) Kwangju shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Part A of the project, the performance of its obligations under this Agreement and under the Kwangju Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) Kwangju shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Loan, or the performance by Kwangju of its obligations under this Agreement and under the Kwangju Subsidiary Loan Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Kwangju shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part A of the Project of the departments or agencies of Kwangju responsible for carrying out Part A of the Project.

(b) Kwangju shall:

(i) have the records and accounts referred to in para-

graph (a) of this Section 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 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.

Section 3.02. (a) Except as the Bank shall otherwise agree, Kwangju shall take all steps necessary to establish, maintain and collect sewerage charges at such levels so as to produce revenues, commencing July 1, 1993 to the end of the 1993 fiscal year, and for each fiscal year thereafter:

- (i) covering, with respect to sewerage activities, operation and maintenance costs, including depreciation, and debt service payments in excess of depreciation; and
 - (ii) yielding an annual return of not less than three percent of the average current net value of Kwangju's fixed revalued sewerage assets in operation.
- (b) For the purposes of this Section:
- (i) The annual return shall be calculated by dividing Kwangju's net operating income from sewerage activities for the fiscal year in question by one half of the sum of the current net value of Kwangju's fixed revalued sewerage assets in operation at the beginning and at the end of that fiscal year.
 - (ii) The term "net operating income" means total operating revenues less total operating expenses.
 - (iii) The term "total operating revenues" means revenues from all sources related to sewerage operations.
 - (iv) The term "total operating expenses" means all expenses related to sewerage operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 2.66 percent per annum of the average current gross value of Kwangju's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.
 - (v) The average current gross value of Kwangju's fixed revalued assets in operation shall be calculated as one half of the sum of the gross value of Kwangju's fixed revalued assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.
 - (vi) The term "current net value of Kwangju's fixed revalued assets in operation" means the gross value of Kwangju's fixed revalued assets in operation less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

Section 3.03. Kwangju shall revalue from time to time its fixed sewerage assets on the basis required by the relevant laws of the Borrower.

ARTICLE IV

Effective Date; Termination;
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Kwangju thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Kwangju thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT).

For Kwangju:

Kwangju City Government
505-900 Kyelim Dong, Dong Ku
Kwangju City, Korea

2 Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Kwangju, or by Kwangju on behalf of the Borrower under the Loan Agreement, may be taken or executed by the Mayor of Kwangju or such other person or persons as the Mayor of Kwangju shall designate in writing, and Kwangju shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in

their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Callisto E. Madavo

Acting Regional Vice President
East Asia and Pacific

KWANGJU CITY GOVERNMENT

By /s/ Ban, Ki-Moon

Authorized Representative

SCHEDULE

Implementation Program

1. Kwangju shall, without limitation or restriction to the provisions of Section 9.07 of the General Conditions, carry out a water conservation investigation under Part A.3 of the Project over the period April 1993 to December 1995 in accordance with the plan agreed with the Bank and shall furnish to the Bank, not later than July 31, 1996 a final report setting forth the findings of the investigation and the recommendations for a water conservation program based on such findings.

2. Kwangju shall, by not later than June 30, 1996, furnish to the Bank an environmental monitoring program (which shall collect and evaluate data on waste-water treatment plant performance and the environmental impact of plant operations) satisfactory to the Bank, and shall by such date commence to implement such environmental monitoring program in a manner satisfactory to the Bank.

3. Kwangju shall, without limitation or restriction upon the provisions of Section 9.07 of the General Conditions:

(a) by September 30, 1994, and by March 31 and September 30 of each year thereafter, furnish to the Bank a semi-annual report on the progress of Part A of the Project, including revised cost estimates and implementation schedules; and

(b) by September 30, 1994, and by September 30 of each year thereafter, furnish to the Bank updated financial projections for its sewerage activities.

