

CONFORMED COPY

LOAN NUMBERS 3977-0 MD
3977-1 MD

Loan Agreement

(First Private Sector Development Project)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 17, 1996

LOAN NUMBERS 3977-0 MD
3977-1 MD

LOAN AGREEMENT

AGREEMENT, dated April 17, 1996, between REPUBLIC OF MOLDOVA (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, 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Beneficiary" means a Private Enterprise to which a Participating Financial Intermediary proposes to make or has made a Sub-Loan;
- (b) "CLRM" means the Credit Line Regulation Manual which sets out the procedures for implementation of Part A of the Project including, inter alia, a chapter regulating procedures for environmental assessment of the Sub-projects being appraised, and which is referred to in Section 6.01 (e) of this Agreement;
- (c) "Deutsche Mark" and "DEM" mean the lawful currency of the Federal Republic of Germany;
- (d) "DEM Loan Tranche" means the amount in Deutsche Marks provided for in Section 2.01 of this Agreement;
- (e) "Enterprise Assistance Agency" or "EAA" means the Enterprise Assistance Agency, established as a non-profit organization pursuant to Resolution No. 426 of the Borrower, dated June 21, 1995 and registered in the Borrower's Enterprise Register on June 21, 1995;
- (f) "Enterprise Restructuring Law" means Decree No. 306 of the Government of the Borrower entitled "Decree on Urgent Measures For Improvement of Financial and Economic Condition and Restructuring of Industrial Enterprises", issued on May 15, 1995, or any law or regulation issued under, or as an amendment or successor to, the said Decree No. 306;
- (g) "Fiscal Agency Agreement" and "Fiscal Agent" mean, respectively, the agreement entered into by the Borrower, through its Ministry of Finance, and NBM, pursuant to which NBM shall act as a fiscal agent of the Borrower for the purposes of carrying out Part A of the Project, and NBM, acting as the fiscal agent of the Borrower in accordance with the terms of the Fiscal Agency Agreement;
- (h) "Funds Transfer Agreement" means the agreement entered into by the Borrower, through its Ministry of Finance, and EAA as specified in paragraph 5 (a) of Schedule 5 to this Agreement for the purposes of carrying out Part C of the Project;
- (i) "Law On Financial Institutions" means the Borrower's law governing financial institutions, adopted by the Borrower's Parliament on July 21, 1995;
- (j) "Lei" means the currency of the Borrower;
- (k) "Loan Tranche" means any of the USD Loan Tranche or the DEM Loan Tranche;
- (l) "National Bank of Moldova" or "NBM" means the Central Bank of the Borrower, established and operating pursuant to Borrower's "Law Establishing the National Bank of the Republic of Moldova", dated June 11, 1991, as the same may be amended from time to time;
- (m) "National Bank Law" means the Borrower's law governing the operation of the NBM, which came into effect on October 12, 1995;
- (n) "NBM Sub-loan Agreement" means the agreement entered into between the Borrower and NBM as specified in paragraph 3 (a) of Schedule 5 to this Agreement, for the purposes of carrying out Parts B.1 and B.2 of the Project;
- (o) "Participating Financial Intermediaries" or "PFIs" means the banks and other financial institutions established and operating according to the applicable rules of the Borrower and approved by the Bank for participation in the Project. "PFI" means a single participating financial intermediary;
- (p) "PIU" means the Project Implementation Unit established within the Borrower's Ministry of Finance by Government Decree No. 799, dated December 5, 1995, and referred to in paragraph 1 of Schedule 5 to this Agreement;
- (q) "Private Enterprise" means a commercial entity registered according to

the applicable rules and regulations of the Borrower, in which more than 50% of the proprietary interest is held by persons or companies other than the Borrower, the Borrower's local authorities or any subdivision thereto, or entities controlled by the Borrower;

(r) "Selected PFI" means a PFI approved by the Bank for participation in Part A.2 (ii) of the Project;

(s) "SME" or "Small and Medium Scale Enterprise" means a Private Enterprise employing up to 200 persons;

(t) "SME Sub-loan" means a Sub-loan of \$100,000 equivalent or less made by a Selected PFI to an SME Beneficiary;

(u) "Special Account" means any of the accounts referred to in Section 2.02 (b) of this Agreement; and "Dollar Special Account" and "DEM Special Account" mean the Special Accounts to be maintained in Dollars and DEM, respectively;

(v) "Sub-loan" means a loan made or to be made by a Participating Financial Intermediary, financed in whole or in part out of the proceeds of the Loan, to a Beneficiary for a Sub-project and includes SME Sub-loan;

(w) "Sub-project" means a specific project to be carried out by a Beneficiary, utilizing, in whole or in part, the proceeds of a Sub-loan;

(x) "Subsidiary Loan Agreement" and "Subsidiary Loan" mean, respectively, any agreement entered into between NBM, acting as the Fiscal Agent of the Borrower in accordance with the terms of the Fiscal Agency Agreement, and a Participating Financial Intermediary pursuant to Section 2 (a) of Schedule 5 to this Agreement, and any loan and grant made pursuant to a Subsidiary Loan Agreement;

(y) "Technical Unit" means the Technical Unit established and maintained within the National Bank of Moldova as specified in paragraph 2 (d) of Schedule 5 to this Agreement;

(z) "TU Grant Agreement" means an agreement entered into by the Borrower, through its Ministry of Finance, and NBM as specified in paragraph 2 (b) of Schedule 5 to this Agreement for the purposes of carrying out Part A.3 of the Project; and

(aa) "USD Loan Tranche" means the amount in Dollars provided for in Section 2.01 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, the following amounts:

(a) an amount equal to twenty-five million Dollars (\$25,000,000); and

(b) an amount equal to fourteen million Deutsche Marks (DEM 14,000,000).

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 services 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 the currency of each Loan Tranche (i.e., in Dollars and Deutsche Marks) a special deposit account, each in a commercial 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 Accounts shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be July 31, 2000 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:

(i) the USD Loan Tranche withdrawn and outstanding from time to time, at a rate for each Interest Period equal to USD LIBOR Base Rate, plus USD LIBOR Total Spread; and

(ii) the DEM Loan Tranche withdrawn and outstanding from time to time, at a rate for each Interest Period equal to DEM LIBOR Base Rate plus DEM 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 not including the first Interest Payment Date and thereafter the period from and including any Interest Payment Date to but not including the next Interest Payment Date.

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

(iii) "USD LIBOR Base Rate" means for each Interest Period the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the 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) "USD 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 USD Loan Tranche, as reasonably determined by the Bank and expressed as a percentage per annum.

(v) "DEM LIBOR Base Rate" means for each Interest Period the London interbank offered rate for six-months 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.

(vi) "DEM 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 DEM Loan Tranche; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of USD LIBOR Base Rate, USD LIBOR Total Spread, DEM LIBOR Base Rate and DEM 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 semiannually on January 15 and July 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 the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, banking, accounting and environmental 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 Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services 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 3.03. 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 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 Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

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

(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 year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following event is specified, namely that the Law on Financial Institutions, the National Bank Law or the Enterprise Restructuring Law shall have been amended, abrogated, repealed or otherwise modified so as to affect materially and adversely the ability of the Borrower to achieve the objectives of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Fiscal Agency Agreement satisfactory to the Bank has been duly executed on behalf of the parties thereto;

(b) at least two Subsidiary Loan Agreements satisfactory to the Bank have been duly executed on behalf of the parties thereto;

(c) the Funds Transfer Agreement satisfactory to the Bank has been duly executed on behalf of the parties thereto;

(d) the TU Grant Agreement satisfactory to the Bank has been duly executed on behalf of the parties thereto;

(e) the CLRM, satisfactory to the Bank, has been finalized and adopted; and

(f) the Law on Financial Institutions has come into force.

Section 6.02. The following are specified as additional matters, within the

meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that each of the Fiscal Agency Agreement, the Subsidiary Loan Agreements, the Funds Transfer Agreement and the TU Grant Agreement referred to in paragraphs (a), (b), (c) and (d) of Section 6.01 of this Agreement, respectively, has been duly authorized or ratified by the respective parties thereto and is legally binding upon the respective parties thereto in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
277005 Chisinau
Cosmonaut Street, 7
Republic of Moldova

Telex:

(3732) 228610

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)

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.

REPUBLIC OF MOLDOVA

By /s/ Nicholay Tau

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil G. Kavalsky

Acting Regional Vice President
Europe and Central Asia

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:

Category	Amount of the Loan Allocated (Expressed in Dollar)	Amount of the Loan Allocated (Expressed in Deutsche Mark)	% of Expenditures to be Financed
(1) Goods under Part A.1 of the Project	17,450,000	14,000,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 80% of local expenditures for other items procured locally
(2) Goods under Part B.1 of the Project	1,550,000		100% of foreign expenditures, 100% of local expendit- ures (ex-factory cost) and 80% of locally local expenditures for other items procured
(3) Goods under Part B.2 of the Project	680,000		100% of foreign expenditures, 100% of local expendit- ures (ex-factory cost) and 80% of locally local expenditures for other items procured
(4) Goods under Part B.3 of the Project	1,920,000		100% of foreign expenditures, 100% of local expendit- ures (ex-factory cost) and 80% of local expenditures for other items procured locally
(5) Consultants' services under Parts A.2, A.3 and C of the Project	3,400,000		100%
TOTAL	<u>25,000,000</u> =====	<u>14,000,000</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; and

(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.

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, except that withdrawals, in an aggregate amount not to exceed the equivalent of \$3,400,000, may be made in respect of Categories 2, 3 and 4 on account of payments made for expenditures before that date but after September 1, 1995;

(b) expenditures under Category (2) unless the Bank shall have: (i) received from the NBM a detailed financial plan for automation of the NBM, acceptable to the Bank; and (ii) communicated to the Borrower its acceptance of evidence furnished by the Borrower that the NBM Sub-loan Agreement acceptable to the Bank has been duly executed, and is legally binding upon, the parties thereto in accordance with its terms;

(c) expenditures under Category (3) unless the Bank shall have: (i) received from the NBM a detailed financial plan for the upgrading of the clearing and settlement system of the NBM; and (ii) communicated to the Borrower its acceptance of evidence furnished by the Borrower that the NBM Sub-loan Agreement acceptable to the Bank has been duly executed, and is legally binding upon, the parties thereto in accordance with its terms; and

(d) expenditures under Category (4) unless the Bank shall have received from the Borrower a detailed financial plan for the automation of the Tax Administration Division within the Borrower's Ministry of Finance.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (i) goods under Part A.1 of the Project not exceeding \$1,000,000 equivalent; (ii) goods under Parts B.1, B.2 and B.3 of the Project not exceeding \$150,000; and (iii) consultants' services not exceeding \$100,000 for consulting firms and \$50,000 for individual consultants, 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 support and help accelerate the Borrower's implementation of reforms in the Borrower's enterprise and financial sectors in the post-mass-privatization phase by: (a) accelerating the emergence and growth of Small and Medium-Scale Enterprises; (b) streamlining larger enterprises and releasing assets into the market; and (c) increasing the efficiency of resource mobilization and credit allocation through the provision of assistance to restructure the banking system, strengthening the infrastructure for banking activity, and providing institutional development support for solvent banks.

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

Part A: Credit Line

1. Provision of Sub-loans by Participating Financial Intermediaries to Beneficiaries.

2. Provision of technical assistance to (i) Participating Financial Intermediaries to increase their intermediation efficiency, and (ii) Selected Participating Financial Intermediaries in setting up credit lines for SMEs.

3. Provision of technical assistance for the Technical Unit.

Part B: Automation of NBM and the Borrower's Tax Administration

1. Provision of the necessary equipment for automation of NBM.

2. Provision of the necessary hardware and software for upgrading the clearing and settlement system of NBM.

3. Provision of the necessary equipment for automation of the Tax Administration Division within the Borrower's Ministry of Finance.

Part C: Enterprise Sector Strengthening

Provision of technical assistance to enterprises participating in an out-of-court voluntary restructuring program.

* * *

The Project is expected to be completed by January 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*	Payment of Principal (Expressed in DEMs)**
July 15, 2001	525,000	325,000
January 15, 2002	540,000	335,000
July 15, 2002	560,000	340,000
January 15, 2003	575,000	350,000
July 15, 2003	595,000	360,000
January 15, 2004	610,000	365,000
July 15, 2004	630,000	375,000
January 15, 2005	645,000	385,000
July 15, 2005	665,000	395,000
January 15, 2006	685,000	400,000
July 15, 2006	705,000	410,000
January 15, 2007	730,000	420,000
July 15, 2007	750,000	430,000
January 15, 2008	770,000	440,000
July 15, 2008	795,000	450,000
January 15, 2009	820,000	465,000
July 15, 2009	845,000	475,000
January 15, 2010	870,000	485,000
July 15, 2010	895,000	495,000
January 15, 2011	920,000	510,000
July 15, 2011	950,000	520,000
January 15, 2012	975,000	530,000
July 15, 2012	1,005,000	545,000
January 15, 2013	1,035,000	560,000
July 15, 2013	1,065,000	570,000
January 15, 2014	1,100,000	585,000
July 15, 2014	1,130,000	600,000
January 15, 2015	1,165,000	610,000
July 15, 2015	1,200,000	625,000
January 15, 2016	1,245,000	645,000

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

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

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

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

Part B: International Competitive Bidding

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

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. Established Commercial Practice

Goods under Part A of the Project, estimated to cost \$1,000,000 equivalent or less per contract, may be procured in accordance with normal commercial practices, acceptable to the Bank, at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor.

2. Direct Contracting

Goods under Part A of the Project which: (i) should be procured as an extension of an existing contract; (ii) must be purchased from the original supplier to be compatible with existing equipment; (iii) are of a proprietary nature; or (iv) must be procured from a particular supplier as a condition of a performance guarantee, 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 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

With respect to: (i) each contract for goods procured in accordance with the provisions of Part B of this Schedule; (ii) the first contract for goods to be financed by each PFI in accordance with the provisions of Part C.1 of this Schedule; and (iii) each contract for goods awarded in accordance with the provisions of Part C.2 of this Schedule, respectively, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

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

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

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

1. During the execution of the Project the Borrower shall maintain the PIU with functions and responsibilities satisfactory to the Bank and with staff whose qualifications, experience and terms of reference are satisfactory to the Bank.

2. For the purpose of carrying out Part A of the Project, the Borrower shall:

(a) (i) relend to PFIs an amount equivalent to the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement; and

(ii) extend to PFIs and Selected PFIs on a grant basis a portion of the proceeds of the Loan allocated from time to time to Category (5) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, under Subsidiary Loan Agreements to be entered into between the Borrower, acting through NBM as its Fiscal Agent, and each such PFI, under terms and conditions satisfactory to the Bank including, without limitation, those set forth in Section I of the Annex to this Schedule;

(b) extend to NBM on a grant basis an amount equivalent to a portion of the proceeds of the Loan allocated from time to time to Category 5 of the table set forth in paragraph 1 of Schedule 1 to this Agreement under a TU Grant Agreement under terms and conditions satisfactory to the Bank;

(c) (i) exercise its rights under the Fiscal Agency Agreement, Subsidiary Loan Agreements and the TU Grant Agreement in such manner as to protect the interests of the Bank and the Borrower and to achieve the purposes of the Project;

(ii) except as the Bank shall otherwise agree, suspend and subsequently terminate, if suspension extends beyond 120 days, any Subsidiary Loan

Agreement upon occurrence of events set forth in Sections
I.B.3 of the Annex to Schedule 5 to the Loan Agreement; and,

(iii) except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the Fiscal Agency Agreement, any Subsidiary Loan Agreements or the TU Grant Agreement or any respective provision thereof;

(d) cause NBM to: (i) maintain, in accordance with the terms of the Fiscal Agency Agreement, TU with staff, functions, responsibilities and technical assistance satisfactory to the Bank; and (ii) take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable TU to perform in accordance with the provisions of the TU Grant Agreement and the Fiscal Agency Agreement all the obligations of TU therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance;

(e) coordinate the overall execution of Part A of the Project and monitor the carrying out by the Participating Financial Intermediaries of their respective Subsidiary Loan Agreements in accordance with policies and procedures satisfactory to the Bank;

(f) take or cause to be taken all action necessary or appropriate to enable the Participating Financial Intermediaries to perform in accordance with the provisions of their respective Subsidiary Loan Agreements all the obligations of the Participating Financial Intermediaries therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance; and

(g) by December 31, 1997, contribute in Lei an amount equivalent to \$5,000,000 to be made available by NBM, as the Borrower's Fiscal Agent, to PFIs for on-lending to Private Enterprises in accordance with criteria set out in Section II of the Annex to Schedule 5.

3. For the purpose of carrying out Parts B.1 and B.2 of the Project, the Borrower shall:

(a) relend to NBM the equivalent of the proceeds of the Loan allocated from time to time to Categories (2) and (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under the NBM Sub-loan Agreement; and

(b) exercise its rights under the NBM Sub-loan Agreement in such a manner as to protect the interests of the Bank and the Borrower and to achieve the purposes of the Project, and, except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the said Agreement or any provision thereof.

4. The Borrower shall carry out Part B.3 of the Project through the Tax Administration Division within the Borrower's Ministry of Finance.

5. For the purpose of carrying out Part C of the Project, the Borrower shall:

(a) extend to the EAA on a grant basis a portion of the proceeds of the Loan allocated from time to time to Category (5) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under the Funds Transfer Agreement;

(b) exercise its rights under the Funds Transfer Agreement in such manner as to protect the interests of the Bank and the Borrower and to achieve the purposes of the Project, and, except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the said agreement or any provision thereof; and

(c) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the EAA to perform in accordance with the provisions of the Funds Transfer Agreement all the obligations of the EAA therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance.

ANNEX TO SCHEDULE 5

Section I. Principal Terms and Conditions of Subsidiary Loan Agreement

The following are the principal terms and conditions of Subsidiary Loan Agreements which shall apply for the purposes of paragraph 2 (a) of Schedule 5 to this Agreement.

A. Terms

1. Principal Amount

The principal amount to be relented out of the proceeds of the Loan to a Participating Financial Intermediary under its respective Subsidiary Loan Agreement shall be: (a) denominated in Dollars or Deutsche Marks; and (b) the equivalent of the aggregate outstanding amount of the principal of all Sub-loans made out of the proceeds thereof, provided, however, that in respect of PFIs referred to in Section I.B.1(ii) of this Annex to Schedule 5 to the Loan Agreement, the maximum amount available under the Subsidiary Loan during the period of 12 months following the conclusion of the Subsidiary Loan Agreement or until the particular PFI achieves full compliance with criteria referred to in Section I.B.1(i) of this Annex to Schedule 5 to the Loan Agreement, shall be limited to \$3,000,000.

2. Interest Rate

The Subsidiary Loan shall be charged, on the principal amount thereof withdrawn and outstanding from time to time, an interest rate, which shall represent the prevailing interest rate under the Bank Loan as determined in accordance with Section 2.05 of this Loan Agreement plus a market based spread set by the Borrower from time to time, and agreed to by the Bank, to: (i) compensate the Borrower for the administrative costs associated with Part A.1 of the Project; (ii) compensate the Borrower for the credit risk associated with Part A.1 of the Project; and (iii) compensate NBM for administrative costs associated with acting as the Fiscal Agent.

3. Maturity

The Subsidiary Loan shall be repaid over a period of up to twelve years, determined in accordance with guidelines satisfactory to the Bank.

B. Eligibility, Conditions and Remedies

1. Eligibility Criteria

A Subsidiary Loan Agreement may be entered into with a bank or other financial institution, duly established and operating under the laws of the Borrower, which, as the Borrower shall have determined, and the Bank shall have agreed, has a sound financial structure and either (i) is in compliance with criteria agreed with the Bank or (ii) has adopted and undertaken to carry out a program satisfactory to the Bank, designed to achieve its compliance with the said criteria within twelve months of its concluding the Subsidiary Loan Agreement or other period agreed with the Bank.

2. Conditions

Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective Participating Financial Intermediary shall undertake to:

(a) carry out its activities under Part A.1 (and A.2, where applicable) of 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 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 Section II of 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 Loan Agreement and achieve the purposes of Part A 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 TU and the Bank; and (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of

Sub-projects, in accordance with procedures satisfactory to the TU and the Bank;

(c) (i) exchange views with, and furnish all such information to, the Bank and the TU, as may be reasonably requested by the Bank and/or the TU, with regard to the progress of its activities under the Project and the performance of its obligations under its respective Subsidiary Loan Agreement; and (ii) promptly inform the TU of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Loan Agreement;

(d) (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 TU as soon as available, but in any case not later than six 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 and the TU such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank or the TU shall from time to time reasonably request; and

(e) ensure that appraisal of Sub-projects is undertaken in accordance with the applicable environmental laws and standards of the Borrower and the guidelines for environmental assessment, included in CLRM and agreed with the Bank.

3. Remedies

Each respective Subsidiary Loan Agreement shall also provide that the right of the Participating Financial Intermediary to commit further Sub-loans shall be:

(a) suspended upon its failure to: (i) continuously comply with the eligibility criteria referred to in Section I.B.1 of this Annex to Schedule 5, (ii) meet any of the conditions set forth in Section I.B.2 of the said Annex, or (iii) perform any of its obligations under a Subsidiary Loan Agreement; and

(b) terminated if such right shall have been suspended pursuant to paragraph (a) hereof for a continuing period of 120 days.

C. Grants Available in Conjunction with Subsidiary Loan Agreements

Each respective Subsidiary Loan Agreement shall also provide that if, at any time, after the conclusion of the Subsidiary Loan Agreement, a Participating Financial Intermediary (i) receives technical assistance on a grant basis to increase its intermediation efficiency or (ii) after qualifying as a Selected PFI by meeting the additional criteria for Selected PFIs agreed with the Bank, receives technical assistance on a grant basis for setting up credit lines for SMEs, the obligations of the PFI with respect to each of these grants shall be those set forth in Sections I.B.2(a), (c) and (d) of this Annex.

Section II. Terms and Conditions of the Sub-loans and Eligibility Criteria:

The provisions of this Section shall apply for the purposes of paragraph 2 (b) (i) of Section I.B of this Annex to Schedule 5.

1. The principal amount of each Sub-loan made out of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement shall: (a) be denominated in Dollars or Deutsche Marks and (b) be for a minimum amount of \$30,000 equivalent for all Sub-loans except SME Sub-loans, with a maximum amount of all Sub-loans outstanding at any time to a particular Beneficiary not exceeding \$2,500,000 equivalent.

2. Each Sub-loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at the prevailing interest rate under the Subsidiary Loan Agreement as determined in accordance with Section I.A.2 of this Annex to Schedule 5 of the Loan Agreement plus a spread determined by the PFI on the basis of market conditions; and (b) made for (i) a minimum period of one year and a maximum

period of five years for capital investments and (ii) a minimum period of 9 months and a maximum period of 18 months for permanent working capital.

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

(a) unless the Sub-loan for such Sub-project:

(i) shall have been approved by the Bank and such expenditures shall have been made not earlier than 120 days prior to the date on which the Bank shall have received the application and information required under paragraph 4 (a) of this Section in respect of such Sub-loan; or

(ii) the Sub-loan for such Sub-project shall be a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than 120 days prior to the date on which the Bank shall have received the request and information required under paragraph 4 (b) below in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be a Sub-loan made by a PFI for a Sub-project in an amount to be financed out of the proceeds of the Loan, which shall not exceed \$600,000, to be determined by the Bank for such PFI upon its achieving standards of appraisal and supervision of Sub-projects satisfactory to the Bank; or

(b) to finance any investment in military or tobacco industries.

4. (a) When presenting a Sub-loan to the Bank for approval, the PFI shall furnish to the Bank an application, in form satisfactory to the Bank, which shall include (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; and (iv) any such other information as the Bank shall reasonably request;

(b) Each request by a PFI for Sub-loan authorization 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 therefore; and

(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 July 31, 1999.

5. 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; and

(b) in compliance with all environmental laws and standards of the Borrower and the guidelines for environmental assessment, agreed with the Bank.

6. 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:

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

(b) the right to require that the goods to be financed out of the proceeds of the Loan be procured in accordance with the provisions of Schedule 4 to this Loan

Agreement, and use such goods exclusively in the carrying out of the Sub-project;

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

(d) the right to 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 practices, 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) the right to obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(f) the right to 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 Sub-loan agreement with the Participating Financial Intermediary.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the following Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement: for the Dollar Special Account, (1) through (5); and for the DEM Special Account, (1);

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the 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 in Special Accounts pursuant to paragraph 3(a) of this Schedule, equivalent to \$1,000,000 for the Dollar Special Account and DEM 600,000 for the DEM Special Account, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 for the Dollar Special Account and DEM 400,000 for the DEM Special Account until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$4,000,000 and DEM 2,000,000, respectively.

2. Payments out of the Special Accounts 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish such 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 such Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of such Special Account, the Borrower shall furnish to the Bank requests for deposits into such respective 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 such 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 out of any 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 a 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; or

(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 Tranche allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the 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 shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into such 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 such 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 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 any 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 the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

The words "the Bank may, by notice to the Borrower or 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 are deleted and the following is substituted therefor:

"or (f) by the date specified in Section II.4(c) of 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 permitted 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 to submit such applications or approvals 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."

