

CONFORMED COPY

LOAN NUMBER 3020 HU

(Third Industrial Restructuring Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

NATIONAL BANK OF HUNGARY

Dated February 24, 1989

LOAN NUMBER 3020 HU

LOAN AGREEMENT

AGREEMENT, dated February 24, 1989 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NATIONAL BANK OF HUNGARY (the Borrower).

WHEREAS (A) The Hungarian People's Republic (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; 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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (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) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and the Guarantor pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time;

(c) "Subsidiary Financing Agreement" means any agreement to be entered into between the Borrower and a Participating Bank pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time;

(d) "Participating Bank" means any banking institution with which the Borrower shall have entered into a Subsidiary Financing Agreement;

(e) "Sub-loan" means a loan made or proposed to be made, out of the equivalent of the proceeds of the Loan, to a Beneficiary for a Sub-project;

(f) "Beneficiary" means a direct exporter, an indirect exporter, a small business, or an employment creating enterprise to which a Participating Bank proposes to make or has made a Sub-loan;

(g) "Sub-project" means a study to be carried out under Part A (1) of the Project or a specific development project to be carried out under Part A (2) of the Project by a Beneficiary utilizing the proceeds of a Sub-loan;

(h) "direct exporter" means any industrial enterprise, other than an enterprise operating within the mining and ferrous metallurgy and agroprocessing industrial subsectors, which derives part of its sales revenues from the export of its manufactured products;

(i) "indirect exporter" means any industrial enterprise, other than an enterprise operating within the mining and ferrous metallurgy and agroprocessing industrial subsectors, which derives part of its sales revenues from the sale of intermediate goods to direct exporters for incorporation in manufactured products for export;

(j) "small business" means any enterprise, individual entrepreneur or partnership of entrepreneurs, with not more than 60 employees, (i) operating within the industrial sector, excluding the agroprocessing subsector, or (ii) located in the areas to be selected pursuant to Part B.6 of the Annex to Schedule 6 to this Agreement and operating within the industrial sector, including the agroprocessing subsector, or engaged in the business of tourism, trade or construction, or (iii) supporting the operations of the industrial sector through, inter alia, the provision of product design, research and development, technical consultancy, marketing, training, tax advisory, computer, accounting and management consultancy services and the provision and management of rental space for small businesses;

(k) "employment creating enterprise" means any enterprise which the Guarantor shall have determined eligible to receive assistance under the Employment Scheme and which is located in the areas to be selected pursuant to paragraph B.6 of the Annex to Schedule 6 to this Agreement and (i) is operating within the industrial sector, including the agroprocessing subsector but excluding the mining and ferrous metallurgy subsectors, or (ii) is supporting the operations of the industrial sector through, inter alia, the provision of product design, research and development, technical consultancy, marketing, training, tax advisory, computer, accounting and management consultancy services;

(l) "Employment Scheme" means the Guarantor's program under its Regional Development Fund, established and operating pursuant to Joint Decree No. 4 of 1986 (XII.30.) of the President of the National Planning Office, the Minister of Finance and the Minister of Construction and Urban Development of the Guarantor, and Employment Fund, established and operating pursuant to Decree No. 52 of 1987 (X.15.) of the Council of Ministers of the Guarantor, for the development of new employment opportunities in areas experiencing adverse employment impact as a result of measures undertaken to restructure the economy, as said Scheme may be further developed under the program referred to in Section 4.02 (b) of the Guarantee Agreement;

(m) "Basic Law" means Law Decree No. 36 of 1967, of the Presidential Council of the Guarantor pertaining to the Borrower, as amended to the date of this Agreement;

(n) "Credit Policy Guidelines" means the Monetary and Credit Policy Guidelines, regulating the provision of credit by the Borrower and other financial institutions in the Hungarian People's Republic, established by Resolution No. 1115 of 1988 (XII.24.) of the Council of Ministers of the Guarantor; and

(o) "Category" means any withdrawal category set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to one hundred forty million dollars (\$140,000,000).

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 and to be financed out of the proceeds of the Loan.

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

Section 2.03. The Closing Date shall be June 30, 1995, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on May 1 and November 1 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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall:

- (i) carry out Part B of the Project and take all action required on its part to cause Parts A and C of the Project to be carried out by the Participating Banks and the Guarantor, respectively, in accordance with appropriate technical, administrative, financial and economic practices, and to enable the Participating Banks and the Guarantor to perform their respective obligations under the Subsidiary Financing Agreements and the Subsidiary Loan Agreement;
- (ii) provide, promptly as needed, the funds, facilities, services and other resources required for the purpose; and (iii) conduct its operations and affairs under the Project in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Basic Law and Credit Policy Guidelines.

(b) For the purpose of carrying out Part A of the Project, the Borrower shall make available to the Participating Banks the equivalent of the proceeds of the Loan referred to in Schedule 6 to this Agreement under subsidiary financing agreements to be entered into between the Borrower and the Participating Banks under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in said Schedule 6.

(c) For the purpose of carrying out Part C of the Project, the Borrower shall make available to the Guarantor the equivalent in the currency of the Guarantor (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 services for Part C of the Project to be financed out of the proceeds of the Loan allocated from time to time to Category (4) under a subsidiary loan agreement to be entered into between the Borrower and the Guarantor, under terms and conditions which

shall have been approved by the Bank and which shall include, without limitation, terms pursuant to which the Guarantor shall undertake to (i) repay the principal amount so made available over a period of 15 years, inclusive of a grace period of five years; and (ii) pay interest on the principal amount so made available and withdrawn and outstanding from time to time at a rate not less than the higher of the following two rates: (A) the refinancing rate charged from time to time by the Borrower pursuant to the Credit Policy Guidelines, and (B) the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, plus an additional charge equal to 20% of the amounts payable on the basis of said rate.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement and the Subsidiary Financing Agreements 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 Subsidiary Loan Agreement, any of the Subsidiary Financing Agreements, or any provision thereof.

Section 3.02. The Borrower shall:

(a) coordinate and monitor the overall execution of the Project and supervise the carrying out by the Participating Banks of their obligations pursuant to their respective Subsidiary Financing Agreements in accordance with policies and procedures satisfactory to the Bank; and

(b) take all measures necessary to ensure that, except as the Bank shall otherwise agree (i) the aggregate amount of all sub-loans made by the Participating Banks, or any one Participating Bank, to any one Beneficiary shall not exceed the equivalent of \$10,000,000 under Part A (2) (a) of the Project, \$4,000,000 under Part A (2) (b) of the Project and \$2,000,000 under Part A (2) (d) of the Project, and (ii) the aggregate amount of all Sub-loans, or any one Sub-loan, made by the Participating Banks, or any one Participating Bank, for any one Sub-project shall not exceed the equivalent of \$150,000 under Part A (2) (c) of the Project.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works 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 3.04. The Borrower shall employ consultants with qualifications, experience and terms of reference satisfactory to the Bank, to assist it in carrying out Part B of the Project.

Section 3.05. The Bank and the Borrower hereby agree that 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 Part C of the Project shall be carried out by the Guarantor pursuant to Section 3.05 of the Guarantee Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its 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 and the records and

accounts for the Special Account and for the account referred to in Section 4.02 of this Agreement 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 five months after the end of each such year, (A) certified copies of said accounts for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts as well as 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, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (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:

(a) open, by the date on which it shall receive the first payment of interest or other charges on, or repayment of principal under, any of the Subsidiary Financing Agreements and thereafter maintain a separate account on its books in accordance with its normal financial practices; and

(b) upon receipt of each such payment or repayments under each such Agreement, credit the same to the said separate account. All amounts to be so credited to the said separate account shall be utilized by the Borrower, to the extent they are not yet required to meet the Borrower's payment obligations to the Bank under this Agreement, exclusively to finance, through the Participating Banks, specific development projects similar to the Sub-projects in accordance with the Credit Policy Guidelines.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely,

that the Basic Law or the Credit Policy Guidelines shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

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) that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and the Guarantor; and

(b) that at least three Subsidiary Financing Agreements have been executed on behalf of the Borrower and three Participating Banks.

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:

(a) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the Guarantor and is legally binding upon the Borrower and the Guarantor in accordance with its terms; and

(b) that each of the Subsidiary Financing Agreements referred to in paragraph (b) of Section 6.01 of this Agreement has been duly authorized or ratified by the Borrower and the respective Participating Bank and is legally binding upon the Borrower and such Participating Bank 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 President of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

For the Borrower:

National Bank of Hungary
Department for International
Development Institutions
H-1850 Budapest
Szabadsag ter 8-9
Hungarian People's Republic

Cable address:

BANKO
Budapest

Telex:

227267 SMAFU-H,
225755 BANKO-H or
227028 BANKO-H

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/ Eugenio F. Lari
Acting Regional Vice President
Europe, Middle East and North Africa

NATIONAL BANK OF HUNGARY

By /s/ Andras Horvai
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Consultants' services and training under Part A (1) of the Project	700,000	100% of foreign expenditures
(2) Goods, technical licenses, consultants' services and training under:		
(a) Part A (2) (a) and (b) of the Project	104,000,000	100% of foreign expenditures, and 100% of local expenditures (ex-factory cost) for goods, and 100% of foreign expendi-

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(b) Part A (2) (c) of the Project	8,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally for goods, and 100% of foreign expenditures for technical licenses, consultant's services and training
(c) Part A (2) (d) of the Project	13,000,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods, and 100% of foreign expenditures for technical licenses, consultant's services and training
(3) Consultants' services and training under Part B of the Project	150,000	100% of foreign expenditures
	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(4) Goods, consul- tants' services and training under Part C of the Project	4,150,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods, and 100% of foreign expenditures for consultants' services and training
(5) Unallocated	10,000,000	
TOTAL	<hr/> 140,000,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

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

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 exceeding the equivalent of \$7,000,000, may be made on account of payments made for expenditures before that date but after May 15, 1988;

(b) Categories (1) and (2) except for expenditures by a Participating Bank or by a Beneficiary under a Sub-loan made by such Participating Bank after the Bank shall have communicated to the Borrower its acceptance of evidence that a Subsidiary Financing Agreement has been executed on behalf of, and is legally binding upon, the Borrower and such Participating Bank; and

(c) Category (2) (b) except for expenditures by a Beneficiary under a Sub-loan made by a Participating Bank after the Bank shall have communicated to the Borrower its acceptance of evidence that such Participating Bank has adopted satisfactory policies and procedures, set forth in an operations manual, for its financing of specific development projects to be carried out by small businesses and has undertaken to apply the same in the financing of sub-projects under Part A (2) (c) of the Project.

SCHEDULE 2

Description of the Project

The objectives of the Project are (1) to assist in financing such productive facilities and resources as will contribute to improved industrial productivity and competitiveness, increased exports, expansion of small businesses and efficient employment creation; and (2) to strengthen institutional capabilities to facilitate (a) the further restructuring of the industrial sector, (b) the development and application of measures to alleviate the adverse employment impact of such restructuring, and (c) the establishment and growth of small businesses.

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

Part A:

The financing, through the provision of loans, including Sub-loans, by the Participating Banks:

(1) of studies to prepare business plans for improving the product and market strategy, organization, management and operating systems of enterprises; and

(2) of specific development projects for the development, upgrading and expansion of the facilities and the strengthening of the organization, management and operations of: (a) direct exporters, (b) indirect exporters, (c) small businesses, and (d) employment creating enterprises.

Part B:

Carrying out of a training program to upgrade the skills of the staff of the Participating Banks, of other financial institutions and of the associations of proprietorships and small businesses and cooperatives, involved in small business lending and portfolio development and management.

Part C:

(1) Carrying out of studies to assess the performance, competitiveness and future prospects, and to identify suitable strategies for the further development, of the engineering industrial subsector and of such other industrial subsectors as may be selected by agreement between the Guarantor and the Bank.

(2) Carrying out of a study to develop a suitable framework for analyzing the structure and performance of small businesses in all economic sectors and for identifying suitable strategies for their further development.

(3) Carrying out of a program to strengthen the management and operations of the Employment Scheme through, inter alia:

- (a) the development and implementation of a suitable methodology for improving the effectiveness of the Employment Scheme, including (i) the provision of a training program to upgrade the skills of staff involved in the technical, financial and economic appraisal of specific development projects to be carried out under said Scheme, and (ii) the identification and field testing of new integrated employment and workers' retraining services in two selected areas experiencing adverse employment impact due to industrial restructuring, including the provision of equipment and materials to be utilized in the field testing of said services, of staff training in the management and operations of said services, and in the establishment and equipping of an experimental workers' retraining center;
- (b) the development and implementation of a suitable economic strategy for the Borsod County designed to stimulate efficient creation of new employment therein.

* * * *

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 1 and November 1 beginning November 1, 1994 through May 1, 2004	7,000,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:

Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Technical Licenses

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in the territory of the Guarantor may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Goods and technical licenses which the Bank agrees (a) are of proprietary nature, (b) the timely supply thereof is critical for efficient Project execution, or (c) need to be compatible with other installed equipment, may be procured through direct negotiations with the proprietors thereof, on terms and conditions acceptable to the Bank.

2. Goods estimated to cost less than the equivalent of \$150,000 per contract, up to an aggregate amount not to exceed the equivalent of \$20,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines in accordance with procedures acceptable to the Bank.

3. Goods under Part A (2) (c) of the Project may be purchased, in accordance with the normal commercial practices of the purchasers thereof, at reasonable prices, 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 therefore.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in

paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

Consultants' services shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis 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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4);

(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 equivalent to \$6,000,000 to be withdrawn from the Loan Account and deposited into 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 in 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 made out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories 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 Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; (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 6

Principal Terms and Conditions of the Subsidiary Financing Agreements

Further to the provisions of Section 3.02 (b) of this Agreement and except as the Bank and the Borrower shall otherwise agree, the principal terms and conditions set forth or referred to in this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement.

A. Terms

1. The aggregate amount to be made available by the Borrower to a Participating Bank under its respective Subsidiary Financing Agreement (the Subsidiary Finance) shall be the equivalent in the currency of the Guarantor (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:

(a) goods, technical licenses, consultants' services and training (goods and services) for the Sub-projects to be carried out under Sub-loans made by such Participating Bank under Part A (1) and (2) (a), (b), and (d) of the Project and to be financed out of the proceeds of the Loan allocated from time to time to Categories (1) and (2) (a) and (c) (Part A of the Subsidiary Finance); and

(b) goods and services for the Sub-projects to be carried out under Sub-loans made by such Participating Bank under Part A (2) (c) of the Project and to be financed out of the proceeds of the Loan allocated from time to time to Category (2) (b) (Part B of the Subsidiary Finance).

2. The Subsidiary Finance shall be charged on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate not less than the higher of the following two rates: (a) the refinancing rate charged from time to time by the Borrower pursuant to the Credit Policy Guidelines; and (b) the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, plus an additional charge equal to 20% of the amounts payable on the basis of said rate.

3. The Subsidiary Finance shall be repaid in accordance with an amortization schedule pursuant to which:

(a) each portion of Part A 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; and

(b) Part B thereof shall have a maturity of not more than 15 years, inclusive of a grace period of not more than five years.

4. The right of the Participating Bank to the use of the proceeds of its respective Subsidiary Finance shall be: (a) suspended upon failure by such Participating Bank to perform any of its

obligations under its respective Subsidiary Financing Agreement; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of sixty 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 Guarantor, which the Borrower shall have determined, and the Bank shall have agreed, that such institution:

(a) is operating pursuant to an official lending and investment policy statement which the Bank and the Borrower shall have judged acceptable, and has undertaken to maintain said policy statement;

(b) has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of its operations and affairs, including its activities under the Project, and has undertaken: (i) to carry out the same in conformity with sound financial standards and practices and in accordance with its lending and investment policy statement, referred to in subparagraph (a) of this paragraph, and to the extent it participates in the financing of Sub-projects by small businesses under Part A (2) (c) of the Project, to carry out the same in accordance with the policies and procedures set forth in its operations manual referred to in paragraph 3 (c) of Schedule 1 to this Agreement; and (ii) to provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(c) has undertaken to employ, as may be determined necessary by the Borrower, consultants with qualifications, experience and terms of reference satisfactory to the Borrower, to assist it in the carrying out of its activities under the Project;

(d) has adopted and undertaken to maintain suitable procedures to enable it effectively to:

- (i) (A) make Sub-loans to Beneficiaries for Sub-projects under Part A of the Project on the principal terms and conditions set forth in the Annex to this Schedule, (B) exercise its rights in relation to each such Sub-project in such manner as to protect its interests and the interests of the Bank and the Borrower, comply with its obligations under its respective Subsidiary Financing Agreement and achieve the purposes of Part A of the Project, and (C) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without the prior approval of the Borrower;
- (ii) carry out its activities under Part A of the Project, appraise Sub-projects, and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, including the procurement of the goods and services therefor, in accordance with policies and procedures satisfactory to the Bank and the Borrower;
- (iii) ensure that the aggregate amount to be made available for the financing of the working capital requirements of small businesses under Part A (2) (c) of the Project shall be limited to 30% of the aggregate amount of all the Sub-loans to be made by it under said Part of the Project;
- (iv) exchange views with, and furnish all such information to, the Bank or the Borrower, as may be reasonably requested by the Bank or the Borrower,

with regard to the progress of its activities under Part A of the Project, the performance of its obligations under its respective Subsidiary Financing Agreement, and other matters relating to the purposes of Part A of the Project;

- (v) promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Financing Agreement;

(e) has undertaken to: (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial conditions; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the separate account referred to in subparagraph (f) hereof for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank and the Borrower; (iii) furnish to the Bank, through the Borrower, as soon as available, but in any case not later than five months after the end of each such year: (A) certified copies of said financial statements and accounts for such years as so audited, and (B) the report of such audit by said auditors in such scope and detail as the Bank or the Borrower shall have reasonably requested; and (iv) furnish to the Bank, through the Borrower, such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank or the Borrower shall from time to time reasonably request; and

(f) has undertaken to: (i) open, by the date on which it shall receive the first payment of interest or other charges on, or repayment of principal under, any of the Sub-loans made by it under Part A (2) (c) of the Project and thereafter maintain a separate account on its books in accordance with its normal financial practices; and (ii) upon receipt of each such payment or repayment under each such Sub-loan to credit the same to the said separate account and, thereafter, utilize all amounts to be so credited to the said separate account, to the extent they are not yet required to meet its payment obligations to the Borrower under its respective Subsidiary Financing Agreement, exclusively to finance specific development projects by small businesses similar to the Sub-projects under Part A (2) (c) of the Project, in accordance with the policies and procedures set forth in its operations manual, referred to in paragraph 3 (c) of Schedule 1 to this Agreement.

2. Each Subsidiary Financing Agreement shall specify the scope of the participation of the respective Participating Bank in the financing of Sub-projects under Part A of the Project.

ANNEX TO SCHEDULE 6

Principal Terms and Conditions of the Sub-loans

The principal terms and conditions set forth or referred to in this Annex shall apply for the purposes of paragraph 1 (d) (i) of Part B of Schedule 6 to this Agreement.

A. Terms

1. The principal amount of each Sub-loan shall be the equivalent in the currency of the Guarantor (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 services for the Sub-project to be carried out under such Sub-loan and to be financed out of the proceeds of the Loan allocated from time to time to Categories (1) and (2).

2. Sub-loans shall each: (a) be charged interest on the prin-

cipal amount thereof withdrawn and outstanding from time to time at the rate of interest applicable to loans made by each Participating Bank pursuant to its lending and investment policy statement referred to in paragraph 1 (a) of Part B of Schedule 6 to this Agreement; and (b) have a maturity established on the basis of the following:

Sub-loans under Part of of the Project	Maturity - up to (inclusive of grace period)	Grace period - up to
A (1) and A (2) (d)	10 years	three years
A (2) (a) and (b)	12 years	three years
A (2) (c)	three years	one year

3. Sub-loans shall be made on terms whereby the Participating Bank shall obtain, by written contract or other appropriate legal means, rights adequate to protect its interests and those of the Bank and the Borrower, including the right to:

(a) suspend or terminate the right of the Beneficiary to the use of the proceeds of a Sub-loan upon failure by such Beneficiary to perform its obligations under its contract with the Participating Bank;

(b) require that each Beneficiary under Part A (1) of the Project shall undertake to: (i) carry out the Sub-project with due diligence and efficiency and in accordance with appropriate practices and provide, promptly as needed, the funds, facilities and other resources required for the purpose; (ii) procure the consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Section II of Schedule 4 to this Agreement, and use such services exclusively in the carrying out of the Sub-project; (iii) maintain the debt to equity and the debt service coverage ratios and the ratio of current assets to current liabilities specified in paragraph (1) (c) of Part B of this Annex; and (iv) prepare and furnish to the Participating Bank, for forwarding to the Borrower as may be requested by the Bank or the Borrower, all such information as the Bank or the Borrower shall reasonably request relating to the foregoing, to its administration, operations and financial condition and to the benefits to be derived from the Sub-project; and

(c) require that each Beneficiary under Part A (2) of the Project shall undertake to: (i) carry out and operate the Sub-project with due diligence and efficiency and in accordance with safety, health and environmental standards, satisfactory to the Bank, and with sound technical, financial and managerial standards and practices, and provide, promptly as needed, the funds, facilities and other resources required for the purpose; (ii) procure the goods and services to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Agreement, and use such goods and services exclusively in the carrying out of the Sub-project; (iii) enable the Bank, the Borrower and the Participating Bank to inspect such goods and the sites and works included in the Sub-project, the operation thereof, and any relevant records and documents; (iv) take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, 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; (v) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial conditions; and (vi) prepare and

furnish to the Participating Bank, for forwarding to the Borrower as may be requested by the Bank or the Borrower, all such information as the Bank, the Borrower or the Participating Bank shall reasonably request relating to the foregoing, to its administration, operations and financial condition and to the benefits to be derived from the Sub-project; and

(d) require that each Beneficiary under Part A (2) (a), (b) and (d) of the Project shall further undertake to: (i) maintain the debt to equity and the debt service coverage ratios and the ratio of current assets to current liabilities as specified in paragraph (1) (c) of Part B of this Annex; (ii) carry out the business plan referred to in paragraph 2 (a) of Part B of this Annex in such manner as to achieve the objectives thereof; (iii) have its financial statements (balance sheets, income statements and cash flow statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank and the Borrower; (iv) furnish to the Participating Bank, for forwarding to the Borrower as may be requested by the Bank or the Borrower, as soon as available, but in any case not later than five 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 Bank or the Borrower shall have reasonably requested; and (v) furnish to the Participating Bank, for forwarding to the Borrower as may be requested by the Bank or the Borrower, such other information concerning the accounts and records, referred to in paragraph (c) (v) hereof, and said financial statements and records, as well as the audit thereof, as the Bank, the Borrower or the Participating Bank shall from time to time reasonably request.

B. Conditions

1. Sub-loans under Part A (1) and (2) (a), (b) and (d) of the Project shall be made to Beneficiaries who each shall have established, to the satisfaction of the Participating Bank, on the basis of guidelines satisfactory to the Bank, that: (a) it is creditworthy, and has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of the Sub-project; (b) its projected cash generation or equity increases shall be sufficient to enable it to meet the estimated expenditures required for the Sub-project; and (c) it is in a position to continue to maintain a debt to equity ratio of not more than 65:35, a debt service coverage ratio of not less than 1.5:1, and a ratio of current assets to current liabilities of not less than 1.3:1.

2. Sub-loans under Part A (2) (a), (b) and (d) of the Project shall be made:

(a) to Beneficiaries who each shall have developed and undertaken to carry out a business plan, acceptable to the Participating Bank on the basis of guidelines satisfactory to the Bank, to improve such Beneficiary's organization, management and operating systems and product and market strategy, including in respect of each Beneficiary under Part A (2) (a) of the Project, its export marketing activities; and

(b) for Sub-projects which are each: (i) determined to be technically and commercially feasible, and designed in accordance with appropriate safety, health and environmental standards; and (ii) calculated to have a financial rate of return and an economic rate of return of at least (A) 12% in respect of Sub-projects under subpart A (2) (d) of the Project, and (B) 18% in respect of all other Sub-projects, all as shall be determined and calculated by the Participating Bank on the basis of an appraisal carried out in accordance with guidelines satisfactory to the Bank.

3. Sub-loans under Part A (2) (a) of the Project shall be made to direct exporters: (a) with at least 30% of the sales revenues

of each such Beneficiary being derived from its convertible currency exports (with the term "convertible currency" for the purposes herein meaning any currency designated as such by the Borrower on the basis of principles satisfactory to the Bank), and after the Participating Bank shall have determined that the Sub-project to be carried out under the Sub-loan proposed to be made to such Beneficiary is designed to increase such Beneficiary's convertible currency exports or that without the carrying out of the Sub-project such Beneficiary would not be able to maintain its current convertible currency exports; or (b) for Sub-projects calculated each to generate at least 60% of the sales revenues thereunder from convertible currency exports and to generate within a maximum period of five years of the date of the start of the investment for its carrying out (with the term "start of the investment" for the purposes herein having the same meaning assigned to it in the Joint Decree No. 3 of 1984 of the President of the National Planning Office and the Minister of Finance of the Guarantor, as amended to the date of this Agreement) net earnings in convertible currencies amounting to the aggregate equivalent of its cost in such currencies, all as shall be calculated by the Participating Bank on the basis of guidelines satisfactory to the Bank.

4. Sub-loans under Part A (2) (b) of the Project shall be made to indirect exporters for Sub-projects which the Participating Bank shall have determined on the basis of guidelines satisfactory to the Bank, that: (a) at least 70% of the output of each thereof is to be directly exported or sold to direct exporters for incorporation in manufactured products for convertible currency exports, provided, however, that at least 40% of said output is to be sold to such direct exporters; and (b) each is to generate within a maximum period of five years of the date of the start of the investment for its carrying out net earnings amounting at least to the aggregate equivalent of its cost in convertible currency from direct exports and from the sale of intermediate goods to direct exporters for incorporation in convertible currency exports.

5. Sub-loans under Part A (2) (c) of the Project shall each be: (a) limited to the financing of not more than 50% of the estimated cost of the Sub-project to be carried out thereunder; and (b) made in accordance with the Participating Bank's policies and procedures set forth in its operations manual, referred to in paragraph 3 (c) of Schedule 1 to this Agreement.

6. Sub-loans under Part A (2) (d) of the Project shall be made to employment creating enterprises located within areas experiencing adverse employment impact due to industrial restructuring and selected by the Guarantor, on the basis of guidelines satisfactory to the Bank.

7. No expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless the Bank shall have authorized withdrawals from the Loan Account in respect of the Sub-Loan for such Sub-project and such expenditures shall have been made not earlier than one hundred and twenty days prior to the date on which the Bank shall have received the request and information required under paragraph 8 of this Annex in respect of such Sub-loan.

8. Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a Sub-loan shall contain: (a) 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; (b) the terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (c) such other information as the Bank shall reasonably request.

