

CONFORMED COPY

LOAN NUMBER 7013 POL

Loan Agreement

(Rural Development Project)

between

REPUBLIC OF POLAND

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated July 25, 2000

LOAN NUMBER 7013 POL

LOAN AGREEMENT

AGREEMENT, dated July 25, 2000, between REPUBLIC OF POLAND (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) 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;

WHEREAS (B) 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; and

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 Fixed-Spread Loans" of the Bank dated September 1, 1999, (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Annual Plan" means the annual work plan for the Project, referred in Part A (4) (b) (iv) of Schedule 5 to this Agreement;

(b) "ARMA" means the Agency for the Reconstruction and Modernization of Agriculture of the Borrower;

(c) "Beneficiary" means a person eligible, according to the Operational Manual, for the receipt of financing for the carrying out of an off-farm investment under Part A of the Project;

(d) "Eligible Categories" means categories (1) through (7); set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(f) "Financing Agreement" means any of the agreements referred to in Part B (2) (b) of Schedule 5 to this Agreement;

(g) "Funding Agreement" means any of the agreements referred to in Part B (2) (a) of Schedule 5 to this Agreement;

(h) "Gmina" means the basic self-government unit as defined in Polish law;

(i) "Infrastructure Investment" means an investment for rural infrastructure, as defined in the Operational Manual, to be carried out under Part C of the Project;

(j) "LRP" means the Labor Redeployment Program to be implemented by the Ministry of Labor and Social Policy in accordance with criteria set forth in the Operational Manual;

(k) "MARD" means the Ministry of Agriculture and Rural Development of the Borrower;

(l) "Marszalek" means the head of the elected self-government board of a voivodship;

(m) "Micro-credit" means a credit for an off-farm investment, under Part A of the Project;

(n) "Ministries" means the ministries of the Borrower involved in the carrying out of the Project, and represented in the NSC, namely, the MARD and the Ministries of Finance, Economy, Labor and Social Policy, Education, and Interior and Public Administration;

(o) "NSC" means the National Steering Committee, established under the chairmanship of the Minister of MARD and with representatives from the Ministries to oversee the implementation of the Project and to facilitate actions required in connection therewith at the policy level;

(p) "Operational Manual" means the Operational Manual setting forth the responsibilities, arrangements and procedures for Project implementation, dated April 11, 2000, as the same may be amended from time to time;

(q) "PCU" means the Project Coordination Unit, located within the Foundation for Assistance Programs for Agriculture of MARD, an independent agency, reporting to the Minister of MARD and assuming the responsibility of managing the implementation of the Project;

(r) "Powiat" means a local self-government community with jurisdiction over such territory as defined in Polish law;

(s) "Project Team" means a project management unit established in a Ministry for purposes of the Project;

(t) "Project Management Report" means any of the Project Management Reports referred to in Section 4.02 (a) of this Agreement;

(u) "Service Provider" means a non governmental entity selected in accordance with the criteria set forth in the Operational Manual for the provision of Micro-credit under Part A of the Project;

(v) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(w) "RSC" means a Regional Steering Committee established at the voivodship level for purposes of the Project;

(x) "Treasury Bank" means a Polish banking institution selected by the Borrower for the provision of Micro-credits;

(y) "Voivodship" means a regional self-government community (also the largest administrative unit) as defined in Polish law; and

(z) "VPIU" means an agency eligible under the Operational Manual, and contracted by the relevant Marszalek to assist in the management of activities to be carried therein under the Project.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to one hundred eighteen million and eight hundred thousand Euro (EUR 118,800,000) as such amount may be converted from time to time through a currency conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. 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 and in respect

of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be July 31, 2004, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one million one hundred eighty eight thousand Euro (EUR 1,188,000). The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty-five one-hundredths of one percent (0.85%) from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy-five one-hundredths of one percent (0.75%) thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment and other charges shall be payable semiannually in arrears on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the Principal amount of the Loan in accordance with the provision of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

(i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;

(ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and

(iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Without limitation upon the provisions of paragraph 9 (a) of

this Section, the Borrower and the Bank hereby agree that unless otherwise notified by the Borrower in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(d) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through the Project entities, in accordance with the provisions of the Operational Manual with due diligence and efficiency and in conformity with appropriate financial, engineering and rural development practices, and ensure the provision, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Arrangements set forth in Schedule 5 to this Agreement.

Section 3.02. 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 3.03. For the purposes of Section 9.08 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 before 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 a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

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

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

(iii) enable the Bank's representatives to examine such 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 Project Management Reports or 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. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than December 31, 2000, or such later date as the Bank shall agree, to prepare quarterly Project Management Reports, acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows

separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. 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 PCU has been staffed in a manner satisfactory to the Bank;

(b) Funding Agreements have been signed in accordance with the provisions of Part B (2) (a) of Schedule 5 to this Agreement between the NSC and not less than five marszaleks, and the VPIUs for the relevant voivodships have been contracted;

(c) a financial management system, satisfactory to the Bank, has been established for the project; and

(d) a short list of auditors, satisfactory to the Bank, has been prepared for purposes of selection of the auditor referred to in Section 4.01 (b) of this Agreement.

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

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the

purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
ul. Swietokrzyska 12  
00-916 Warszawa  
Republic of Poland

	Cable address:	Telex:	Facsimile:
826-03-00	MINF Poland	825592 minf pl or 814386 minf pl	48 22

For the Bank:

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

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

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 City of Warsaw, Poland, as of the day and year first above written.

REPUBLIC OF POLAND

By /s/ Artur Balazs  
/s/ Krzysztof J. Ners  
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

##### A. General

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 Euro)	% of Expenditures to be Financed
(1) Works	57,030,000	35%
(2) Goods	6,230,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services and training	22,150,000	100%
(4) Audits	620,000	84%
(5) Labor redeployment	19,660,000	49%
(6) Micro-credit under Part A of the Project	10,310,000	75%
(7) Operating costs	1,612,000	85% until EUR 790,000 has been disbursed and 50% thereafter
(8) Fee	1,188,000	Amount due under Section 2.04 of this Agreement
TOTAL	118,800,000	

2. For the purposes of this Schedule:

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

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

(c) the term "operating costs" means costs under the Project with respect of office supplies and materials, transport, vehicle operation and maintenance, rentals in respect of Project implementation, and salaries of non-government staff of the PCU and VPIUs.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made prior to the date of this Agreement; and (b) payments on account of Micro-credit under Category (5) unless the Bank has been satisfied that such Micro-credit is provided through a Service Provider which is selected in accordance with the Operational Manual and which is satisfying the requirements set forth in Part C (1) of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for: (a) works under contracts

costing less than EUR 3,000,000 equivalent each; (b) goods under contracts costing less than EUR 200,000 equivalent each, except for the contracts referred to in Part E. 2 (ii) of Section I of Schedule 4 to this Agreement; (c) labor redeployment under Category (4) of the table in Schedule 1 to this Agreement; (d) Micro-credit under Category (5) of said table; (e) operating cost under Category (6) of said table; and (f) services under contracts costing less than EUR 100,000 equivalent each for the employment of consulting firms and less than EUR 25,000 each for the employment of individual consultants, under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Euro a special deposit account, in the National Bank of Poland, on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) 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 (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this

Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

#### Annex A to SCHEDULE 1

##### Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means an amount equal to EUR 10,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to EUR 5,000,000 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 equal or exceed the equivalent of EUR 20,000,000.

2. 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 deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.

#### Annex B to SCHEDULE 1

##### Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of EUR 20,000,000.

#### SCHEDULE 2

##### Description of the Project

The objectives of the Project are to: (a) increase the level of off-farm employment in rural areas; (b) contribute to the on-going decentralization of self-government and regional development; and (c) assist Poland in building the institutional capacity to manage

pre-accession and structural funds.

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

Part A:           Micro-credit

Provision, through Services Providers, of Micro-credit to unemployed and to small entrepreneurs (the Beneficiaries) for the financing of income-generating, non-farm investments; and (b) provisions of training and business advice to Beneficiaries in the operation and management of their businesses.

Part B:           Human Capital Development

(1) Labor Redeployment: (a) the carrying out of labor market surveys, and (b) implementation and financing, through LRP, of labor redeployment services, small business assistance, employment services and other related services.

(2) Education: implementation of measures to improve the education and training system in the rural area, including the carrying out of programs designed to: (a) improve the quality of school equipment; (b) support the introduction of computers for instructional purposes; and (c) improve school and other educational facilities; and (d) improve teaching quality in primary schools and gymnasia.

(3) Implementation of measures to increase the efficiency of selected units of local and regional governments, including measures to improve their finance and human resource management, training of their staff and the carrying out of evaluation to assess the impact of the measures being implemented.

Part C:           Rural Infrastructure

(1) The financing of infrastructure investments for rural development, selected in accordance with the procedures set forth in the Operational Manual.

(2) Training of the technical staff of vivodships in the Project Area in the planning, finance, management and operation of municipal infrastructure, and the review of infrastructure investments.

(3) Technical assistance to VPIU's staff, regional offices of ARMA and local government officials in the review of investment proposals.

(4) Carrying out of monitoring and evaluation of the infrastructure investments' cost and initial impact, and of a comprehensive evaluation study towards the end of implementation of said investments.

Part D:           Project Management

Provision of technical assistance, auditing services, training and equipment for purposes of management of project implementation, and to assist in the Project monitoring and evaluation activities.

\* \* \*

The Project is expected to be completed by January 31, 2004.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 5 of this Schedule, to which a Currency Conversion applies.

Payment Date	Installment Share (Expressed as a %)
On each March 15 and September 15 Beginning September 15, 2005 through March 15, 2015	5.0%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two (2) months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall

be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

#### SCHEDULE 4

##### Procurement

##### Section I. Procurement of Goods and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

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

##### 2. 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. International Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$760,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

##### 2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provision of paragraphs 3.5 and 3.6 of the Guidelines.

##### 3. Goods and works under Micro-credit

Goods and works required for the carrying out of investment to be financed from Micro-credit under Part A of the Project shall be procured by Beneficiaries through the methods specified in the Operational Manual.

#### 4. Procurement of Small Works

Works estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$3,090,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

#### 5. LRP

Procurement of items under Part B (1) of the Project shall be undertaken in accordance with procedures consistent with the provisions of paragraph 3.15 of the Guidelines.

#### Part D: Specific Provisions Concerning Part C of the Project

Except as the Bank may otherwise agree, the procurement methods described in Parts B, C 1, C 2, and C 5 of Section I of this Schedule shall apply to the procurement of items under Part C of the Project, estimated to cost in the aggregate the equivalent of about \$54,550,000.

#### Part E: Review by the Bank of Procurement Decisions

##### 1. Procurement Planning

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

##### 2. Prior Review

With respect to: (i) each contract for goods estimated to cost the equivalent of \$200,000 or more, and (ii) the first contract by the PCU, each VPIU and each Ministry, to be awarded under the procedures referred to in Part C (1) and C (2) of this Section, 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



Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for beneficiary evaluation studies under Part B(3) for the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services for auditing may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant

Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms for estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000 the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

### 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 Consultant Guidelines shall apply.

## SCHEDULE 5

### Implementation Arrangements

#### A. General Arrangements

1. NSC: the Borrower shall assign the responsibility for supervising and coordinating the implementation of the Project to NSC, and shall, for this purpose, maintain NSC until the completion of the Project under operating procedures satisfactory to the Borrower and the Bank.

2. Operational Manual: the Borrower shall cause the Ministries and other entities involved in Project implementation to carry out their activities thereunder in accordance with the rules and procedures set forth in the Operational Manual.

3. Environmental Requirements: The Borrower shall take all necessary measures to ensure that the selection and implementation of activities under the Project shall be undertaken in full compliance with relevant environmental standards and requirements in Poland.

4. PCU: (a) the Borrower shall cause MARD to assign the responsibility of overall management of Project implementation to the PCU, acting within the Foundation for Assistance Programs for Agriculture of MARD, and shall maintain the PCU until the completion of the Project with resources, staff, facilities and under terms of reference satisfactory to the Borrower and the Bank.

(b) Responsibilities of the PCU shall include: (i) coordination of the activities of the Project Teams and the VPIUs under the Project; (ii) supervision of the preparation of bid and contract documents under the Project; (iii) management of the Project financial system and arranging for the audit of Project accounts; (iv) preparation, based on proposals from the Project entities and with the approval of NSC, in each year during the period of Project implementation, of an annual work Plan (Annual Plan) for the following year, setting forth the activities to be carried out thereunder, together with the procurement and financing arrangements thereof; (v) preparation, based on the monitoring indicators set forth in the Operational Manual, of semi-annual progress reports on Project implementation, and furnishing the same to NSC and the Bank; and

(vi) development in agreement with the Bank, of modifications to the eligibility criteria and levels of support under the Project and submission of the same for approval by NSC.

B. Preparation and Funding of investments under the Project

1. Preparation Procedures:

The following procedures shall be followed in the preparation of investments under the Project:

(a) each Gminas shall prepare, in consultation with the relevant Powiat and with the assistance of the technical services for Project management to be provided under Part C of the Project, a list of investments to be carried out within it under the Project. With respect to proposals for infrastructure investments under Part C of the Project, without limitation to the provisions of the Operational Manual, the following procedures shall apply: (i) each proposal shall be submitted to the relevant local office of ARMA, which shall examine the proposal against the eligibility criteria included in the Operational Manual and perform financial and economic analysis with respect thereof; (ii) the proposal, after being evaluated by said local office shall thereafter be sent to the relevant VPIU and RSC, with copy to the applicant; and (iii) further processing of proposals shall be undertaken in accordance with the procedures described in sub-paragraphs (c), (d) and (e) of this paragraph;

(b) The Borrower, acting through MARD, shall take all necessary measures to ensure, by March 31, 2000, that local offices of ARMA shall have: (i) the capacity needed to review the economic, financial, technical and environmental aspects of proposed infrastructure investments; and (ii) a financial management system satisfactory to the Bank;

(c) Thereafter, the relevant VPIU shall review the proposed investments to ascertain compliance in their preparation with regional development policies;

(d) investments proposals shall thereupon be sent to the relevant RSC which shall rank such proposals in accordance with the order of priority set forth in the Operational Manual; and

(e) The NSC will allocate funds among the various voivodships based on criteria for the appropriate allocation of investment funds among the various regions. These criteria will be developed by the PCU in agreement with the World Bank and submitted for approval by the NSC.

2. Funding of Investments:

(a) The Funding Agreements:

The allocation of funds under the Project shall be formalized under a Funding Agreement to be concluded between the NSC, represented by the Minister of MARD, and the relevant Marszalek. The Funding Agreement shall be concluded on the basis of a standard format agreed upon with the Bank and shall provide, inter alia, for:

(i) the amount to be made available to the voivodship;

(ii) a description of the investments to be carried out in

utilization of such amount;

(iii) the implementation arrangements for the investments, including a detailed description of the funding resources for investments to be carried out in each Gmina under the Project;

(iv) the conditions under which funds shall be transferred from the Special Account (and from other resources) for purposes of investments under the Project;

(v) the procurement of goods, works and services to be financed from the proceeds of the Loan in accordance with the procedures set forth or referred to in the Loan Agreement;

(vi) the maintenance, in accordance with Polish law, of separate records and accounts for investments under the Project;

(vii) the format for the quarterly reports to be submitted to the RSC on progress in the carrying out of the investments;

(viii) the obligation of Marszalek to cooperate with the PCU and other relevant entities, in accordance with the procedures described in the Operational Manual, on all matters concerning the coordination and supervision of Project implementation;

(ix) the authority of the NSC to make such periodic adjustments to amounts earmarked under the Funding Agreement as shall be justified by reasons related to progress in the implementation of investments, or to changes in the scope of investments or in their estimated cost; and

(x) the obligation of Marszalek to maintain the relevant VPIU with adequate resources and staffing.

(b) The Financing Agreements:

Upon its conclusion of a Funding Agreement with the NSC, the Marszalek of each voivodship shall enter into a Financing Agreement with each gmina or powiat within its territory for the funding of investments to be carried out within such gmina or powiat under the Project. The Financing Agreement shall be concluded on the basis of a format agreed upon with the PCU and the Bank and shall provide, inter alia, for:

(i) a general description of investments to be carried out within the or powiat under the Project;

(ii) an estimate of funds to be made available to the gmina or powiat for the carrying out of such investments, together with the financing charges, if any, applicable thereto;

(iii) the financing plan for the carrying out of such investments, including an estimate of amounts to be contributed for this purpose from the gmina's or

powiat's own resources;

(iv) the assignment of the responsibility for financial management of amounts to be made available to the gmina or powiat to the finance department of the voivoda office, in accordance with the procedures set forth in the operational manual;

(v) the procurement of goods, works and services to be financed from the proceeds of the Loan in accordance with the procedures set forth or referred to in the Loan Agreement;

(vi) the maintenance, in accordance with Polish law, of separate records and accounts for investments under the Project;

(vii) the obligation of the gmina or powiat to undertake implementation of investments with the technical assistance of the relevant VPIU and in accordance with the arrangements set forth in the Operational Manual;

(viii) the authority of the Marszalek to make such periodic adjustments to amounts earmarked under the Financing Agreement as shall be necessary to correspond to adjustments made to the Funding Agreement according to paragraph (a) (ix) above; and

(ix) the obligation of Marszalek to cooperate with the PCU and other relevant entities, in accordance with the procedures described in the Operational Manual, on all matters concerning the coordination and supervision of Project implementation.

#### C. Micro-credit

(1) Micro-credit under Part A of the Project shall be provided through Service Providers, selected in each voivodship in accordance with the criteria set forth in the Operational Manual; such criteria shall include, inter alia, that the Service Provider has in place a financial management and internal control system satisfactory to PCU and the Bank.

(2) Upon qualifying a Service Provider for the provision of Micro-credit under Part A of the Project, the Bank Gospodarstwa Krajowego (BGK), operating as an agent of the Ministry of Labour and Social Policy, shall enter into a contract with such Service Provider, in accordance with the arrangements set forth in the Operational Manual whereby: (a) the Service Provider shall be provided with the amount of the Loan to be used by it for the provision of Micro-credit; and (b) the Service Provider shall ensure that, on average, no less than 25% of the Micro-credits shall be funded from the Service Provider own resources.

(3) The extension of any Micro-credit to Beneficiaries shall be made under a contract to be concluded between the Services Provider and the Beneficiary, on terms and conditions which shall substantially be in conformity with a standard format satisfactory to the Bank, including provisions whereby the Beneficiary shall be required: (a) to implement the activities for which the Micro-credit is extended in accordance with the arrangements and the time-frame stipulated in the contract; (b) to make debt service payments with respect to the Micro-credit in accordance with the terms indicated in the Operational Manual; (c) to procure goods and services to be financed from the proceeds of the Micro-credit in accordance with the procurement methods set forth in the Operational Manual; (d) to report periodically to the relevant VPIU on progress in the implementation of activities financed from the proceeds of the Micro-credit, and to enable representatives of the VPIU to inspect such

activities; and (e) to maintain financial records adequate to reflect expenditures incurred in connection with the carrying out of such activities.

D. Monitoring and Evaluation

The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by April 30, 2002, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

