

CONFORMED COPY

LOAN NUMBER 4602 RO

Loan Agreement

(Rural Finance Project)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 30, 2001

LOAN NUMBER 4602 RO

LOAN AGREEMENT

AGREEMENT, dated April 30, 2001, between ROMANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated February 28, 2001, from the Borrower describing a two-phased program of policies and actions (the Program) designed to promote economic growth and reduce poverty in the Borrower's rural areas through the provision of financial services;

(B) the Borrower has requested the Bank to support the execution of the two phases of the Program through extension to the Borrower of Loans up to the equivalent of one hundred fifty million Dollars (\$150,000,000) over a period of seven (7) years;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which forms the first phase of the Program, has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999) with the modification set forth below (the General Conditions) constitute an integral part of this Agreement.

Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

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) "Agency and Co-financing Agreement" means an agreement to be entered into between the Borrower and a Service Provider (hereinafter defined) pursuant to paragraph 3 of Schedule 5 to this Agreement;

(b) "Beneficiary" means an entity or an individual eligible, in accordance with the criteria set forth in paragraph 1 of Part B of Annex A to Schedule 5 of this Agreement, to obtain a Sub-Loan (hereinafter defined), Financing Lease (hereinafter defined) or a Micro-Loan (hereinafter defined);

(c) "Eligible Categories" means categories (1) through (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) "Eligible Expenditures" means the expenditures for goods, works, services and incremental operating costs and amounts paid on account of withdrawals made by a Beneficiary under a Sub-loan, a Financing Lease or a Micro-Loan under the Project referred to in Section 2.02 of this Agreement;

(e) "Financing Lease" means any transfer of possession of goods by a Leasing Company (hereinafter defined) to a Beneficiary on the basis of a lease agreement for the temporary use of the goods by the Beneficiary for carrying out a Sub-project (hereinafter defined);

(f) "IAPSO" means the Inter-Agency Procurement Services office of the United Nations Development Programme (UNDP);

(g) "Leasing Company" means a company duly established under the laws of the Borrower and engaged in the business of leasing of commercial assets in the territory of the Borrower;

(h) "Lei" means the currency of the Borrower;

(i) "Micro-loan" means a loan made or proposed to be made by a Service Provider to a Beneficiary for the carrying out of a Sub-project;

(j) "Micro-loan Agreement" means an agreement to be entered into between a

Service Provider and a Beneficiary for the purposes of Part A.3 of the Project;

(k) "Operational Manual" means the manual to be adopted by the Borrower, setting forth the operational and administrative procedures of the credit and leasing facility under Part A of the Project, in respect of the preparation, approval, processing, financing, implementation and supervision of Sub-projects, as well as procedures for the implementation of Parts B and C of the Project;

(l) "Participation Agreement" means an agreement to be entered between the Borrower and a PRB (hereinafter defined) pursuant to paragraph 7 of Schedule 5 of this Agreement;

(m) "Participating Intermediary Bank" or "PIB" means a bank eligible, in accordance with the provisions of Part A of Schedule 6 to this agreement, to engage in provision of Sub-Loans and Financing Leases to Beneficiaries under Parts A.1 and A.2 of the Project;

(n) "Participating Retail Bank" or "PRB" means a commercial bank eligible for participating in Part B of the Project in accordance with the criteria set forth in paragraph 7 of Schedule 5 to this Agreement;

(o) "PMU" means the Project Management Unit established under the Ministry of Public Finance pursuant to the Ministerial Order 376, 8.03.2001, dated March 8, 2001;

(p) "PRB Subsidiary Loan" means a loan made or proposed to be made by the Borrower to a PRB under a Participation Agreement to be entered into between the Borrower and each PRB;

(q) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(r) "Resource Management Agreement" means the agreement to be entered into between the Borrower and the Treasury Bank (hereinafter defined), as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Resource Management Agreement;

(s) "Service Providers" means an entity eligible, in accordance with the criteria set forth in Part A of Annex B to Schedule 5 to this Agreement, to provide Micro-loans to Beneficiaries under Part A.3 of the Project;

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

(u) "Steering Committee" means the committee established by the Borrower pursuant to Joint Ministerial Order No. 319,5.03.2001 dated March 5, 2001;

(v) "Sub-Loan" means a loan made or proposed to be made by a PIB to a Beneficiary for the purposes of financing a Sub-project;

(w) "Sub-Project" means a specific project or investment under Part A of the Project, which is proposed to be carried out by a Beneficiary utilizing a Sub-Loan, a Financing Lease or a Micro-Loan;

(x) "Subsidiary Loan" means the loan made pursuant to the Subsidiary Loan Agreement (hereinafter defined);

(y) "Subsidiary Loan Agreement" means an agreement entered into between the Borrower and a PIB or a Leasing Company pursuant to paragraph 2 of Schedule 5 to this Agreement; and

(z) "Treasury Bank" means a commercial bank selected in accordance with the criteria satisfactory to the Bank to manage, on behalf of the Borrower, the

disbursement of funds 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 eighty million Dollars (\$80,000,000).

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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Beneficiary under a Sub-loan, a Financing Lease or a Micro-Loan to meet the reasonable cost of goods, works and services required for the Sub-project in respect of which the withdrawal from the Loan Account is requested; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services and incremental operation costs required for Parts B and C of the Project and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be January 31, 2006, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. On or promptly after the Effective Date, the Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in U.S. dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total

Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.08. 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, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Sub-loans, Financing Leases and Micro-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Annexes A and B of Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Sub-project in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, 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. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months 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 establish and 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 and each Sub-project (including its cost and the benefits to be derived from it).

(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 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 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 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 August 1, 2002, 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

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The charter or similar document for any PIB, Leasing Company, Service Provider or the Treasury Bank shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of such PIB, Leasing Company, Service Provider or the Treasury Bank or its respective ability to carry out its activities under the Project or to perform any of its obligations under its respective Subsidiary Loan Agreement, Participation Agreement, Agency and Co-financing Agreement, or Resource Management Agreement as the case may be; and

(b) The Operational Manual shall have been amended, suspended, abrogated, repealed or waived without prior approval of the Bank.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, any event specified in Section 5.01 of this Agreement shall have occurred.

ARTICLE VI

Effective Date; Termination

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

(a) The Resource Management Agreement, with terms and conditions acceptable to the Bank, has been signed.

(b) The PMU has recruited a procurement specialist with adequate experience in Bank financed procurement.

Section 6.02. The date 120 days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Public Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section

11.01 of the General Conditions:

For the Borrower:

Ministry of Public Finance
17, Apolodor Street
Bucharest
Romania

Telex: Facsimile:
11239 401 312 6792

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ROMANIA

By /s/ Mihai Nicolae Tanasescu

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Country Director
South Central Europe Country Unit
Europe and Central Asia Region

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 Dollars)	% of Expenditures to be Financed
(1) Sub-loans and Financing Leases under Parts A.1 and A.2 of the Project	44,000,000	100%
(2) Micro-loans under Part A.3 of the Project	4,000,000	75%

(3)	Goods		100% of foreign
	(a) under Part B of the Project	5,088,000	expenditures,
	(b) under Part C of the Project	104,000	100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(4)	Works under Part B of the Project	528,000	80%
(5)	Consultants' Services and Training, including services under Part C.1 of the Project	10,488,000	100%
(6)	Incremental Operating Costs		
	(a) of PRBs 2003; 65% until July 31, 2004; 25% thereafter	5,661,000	80% until July 31
	(b) of the PMU	131,000	80%
(7)	Unallocated	10,000,000	
	TOTAL	80,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods 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 "incremental operating costs of PRBs" means incremental costs incurred by PRBs on account of establishing and operating a network of pilot retail banking offices under Part B.2 of the Project, which shall include: (i) a portion of PRB branches' operating costs consisting of administrative costs, including rental, utilities and staff salaries; and (ii) the staff salaries' costs of central office staff for incorporating experimental branches into the accounting and internal control systems of PRBs; and

(d) the term "incremental operating costs of the PMU" means incremental operating costs incurred by the PMU on account of Project implementation, including, office supplies, repair and maintenance of vehicles and office equipment and telecommunications and postage.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made: (a) for expenditures prior to the date of this Agreement, except: (i) withdrawals in an amount not exceeding the equivalent of US\$200,000 may be made under Category (5) of the table shown in paragraph 1 hereof; and (ii) withdrawals in an amount not exceeding the equivalent of US\$50,000 may be made under Category (6)(b) of the table shown in paragraph 1 hereof, both for expenditures incurred prior to that date but after March 1, 2001; (b) in respect of a Sub-loan or a Financing Lease under Category (1) of the table shown in paragraph 1 hereof unless: (i) the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Annex A to Schedule 5 to this Agreement; (ii) a Subsidiary Loan Agreement satisfactory to the Bank, has been executed on behalf of the Borrower and the PIB or Leasing Company respectively in respect of which the Borrower has requested a withdrawal; and (iii) the Borrower has issued Ordinance referred to in paragraph 9 of Schedule 5 to this Agreement; (c) in respect of a Micro-loan under Category (2) of the table shown in paragraph 1 hereof

unless: (i) the Micro-loan has been made in accordance with the procedures, terms and conditions set forth or referred to in Annex B to Schedule 5 to this Agreement; (ii) an Agency and Co-financing Agreement, satisfactory to the Bank, has been executed on behalf of the Borrower and the Service Provider in respect of which the Borrower has requested a withdrawal; and (iii) the Borrower has issued Ordinance referred to in paragraph 9 of Schedule 5.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) Sub-loans, Financing Leases and Micro-loans under Part A of the Project; (b) goods under contracts costing less than \$350,000 equivalent each under Part B of the Project, and less than \$100,000 each under Part C of the Project; (c) civil works under contracts costing less than \$1,000,000 each under Parts B and C of the Project; (d) consultants' services and training under contracts with consulting firms costing less than \$100,000 equivalent each; (e) consultants' services and training under contracts with individual consultants costing less than \$50,000 equivalent each; and (f) incremental operating costs, all 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 Dollars a special deposit account in a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

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:

the term "Authorized Allocation" means an amount equal to \$4,000,000 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 \$1,000,000 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 \$4,000,000.

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 \$6,000,000.

SCHEDULE 2

Description of the Project

The Project is to support the first phase of the Borrower's Program and the Project aims at: (i) accelerating the economic transformation of the rural economy by increasing the flow of investment capital to the sector; (ii) strengthening the role of the private sector in the rural economy; (iii) strengthening the Borrower's capacity to receive funding from the European Union Special Accession Program for Agriculture and Rural Development; and (iv) alleviating rural poverty through financing of farm and off-farm investments for poor segments of the rural population.

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: Rural Credit and Leasing Facility

- (1) Provision of Sub-loans to eligible Beneficiaries to finance rural productive activities.
- (2) Provision of leases of depreciable capital assets (e.g. machinery, tools, vehicles, equipment) by PIBs and Leasing Companies to Beneficiaries.
- (3) Provision of Micro-loans to Beneficiaries.

Part B: Rural Retail Banking and Micro-Finance

- (1) Support for the development of suitable technologies for PRBs and Service Providers to provide retail financial services to entrepreneurs residing in rural areas and enterprises located in, or with activities related to, rural areas.
- (2) Operation by PRBs, of a network of pilot retail banking offices.
- (3) Establishment and operation by Service Providers of a network of micro-credit

retail points.

(4) Provision of training and technical assistance in retail banking and micro-lending to PRBs and Service Providers, respectively.

Part C: Project Management and Technical Assistance on Rural Financial Market Development

(1) Support for implementation and monitoring of the Project, including remuneration for consultants hired for this purpose.

(2) Provision of technical assistance and funds for: (a) development of a warehousing receipts system; (b) examining options to reform the accounting and fiscal treatment of depreciable assets and leasing; (c) analysis of possible instruments for lenders to share the credit history of borrowers in rural areas; (d) examining options to reduce the general risk of rural credit transactions; (e) improvement of regulatory framework for rural mutual financial intermediaries; (f) campaign to increase public awareness of new financial options under the Project; and (g) provision of information to eligible beneficiaries on how to access financial resources available to the rural areas.

* * *

The Project is expected to be completed by July 31, 2005.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
August 15, 2006	3,335,000
February 15, 2007	3,335,000
August 15, 2007	3,335,000
February 15, 2008	3,335,000
August 15, 2008	3,335,000
February 15, 2009	3,335,000
August 15, 2009	3,335,000
February 15, 2010	3,335,000
August 15, 2010	3,335,000
February 15, 2011	3,335,000
August 15, 2011	3,335,000
February 15, 2012	3,335,000
August 15, 2012	3,335,000
February 15, 2013	3,335,000
August 15, 2013	3,335,000
February 15, 2014	3,335,000
August 15, 2014	3,335,000
February 15, 2015	3,335,000
August 15, 2015	3,335,000
February 15, 2016	3,335,000
August 15, 2016	3,335,000
February 15, 2017	3,335,000
August 15, 2017	3,335,000
February 15, 2018	3,295,000

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

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. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods: (a) under Parts A and B of the Project shall be grouped in bid packages estimated to cost \$350,000 equivalent or more each; and (b) under Part C of the Project shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) 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. National Competitive Bidding

Works estimated to cost less than \$1,000,000 per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Limited International Bidding

Goods under Parts A and B of the Project which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

3. International Shopping

Goods under Part C of the Project estimated to cost less than \$100,000 equivalent per contract 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.

4. National Shopping

Goods under Part C of the Project estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

5. Direct Contracting

Goods under Parts A and B of the Project which are of a proprietary nature, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

6. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract 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 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.

7. Commercial Practices

Goods required for carrying out Sub-projects under Part A of the Project, for developing PRB branches under Part B of the Project, and estimated to cost less than \$350,000 equivalent per contract, may be procured in accordance with commercial practices acceptable to the Bank which will require a minimum of three (3) written price quotations and the award of contract to the lowest evaluated bidder.

8. Procurement from UN Agencies

Goods under Parts A and B of the Project to be procured in accordance with the provisions of Part C.7 of this Section, and goods under Part C of the Project, to be procured in accordance with the provisions of Part C.3 of this Section, may be procured through IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: 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 shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for goods and works procured under each Part A, B and C of the Project in accordance with the provisions of Parts B, C.2 and C.5 of this Section; and (ii) the first two contracts for works procured under each Part A, B and C of the Project, including the first two contracts cleared by each PIB and Leasing Company, in accordance with the provisions of Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts for goods and works procured under each Part A and B of the Project, including the first two contracts cleared by each PIB, Leasing Company, PRB, and SP, in accordance with the provisions of Parts C.6 and C.7 of this Section; and (ii) the first contract for goods and works procured under Part C of the Project in accordance with the provisions of Parts C.3 and C.6 to this Section, the following procedures shall apply:

(i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison

and evaluation of quotations received;

- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

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.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-Based Selection

Services for designing: overall retail banking strategy; strategy for channels for delivery of banking products; and strategies, models and systems for recovery of collateral and valuation of assets under Part B.1 of 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. 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 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 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 \$50,000 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 Program

1. The Borrower shall and shall cause PIBs, Leasing Companies and Service Providers to carry out Part A of the Project in accordance with the Operational Manual and the provisions of this Schedule, Annexes A, B and C thereto and Schedule 6 to this Agreement. The Borrower shall not amend, suspend, abrogate, repeal or waive the Operational Manual without the Bank's prior consent.

2. For the purposes of carrying out Parts A.1 and A.2 of the Project, the Borrower shall:

(a) select PIBs and Leasing Companies, in accordance with the eligibility criteria set forth or referred to in Schedule 6 to this Agreement, to participate in financial intermediation of the credit and leasing facility to be established under Part A of the Project through provision of Sub-loans and Financing Leases to Beneficiaries on terms and conditions set forth in Annex A to this Schedule;

(b) relend to PIBs and Leasing Companies the equivalent of the proceeds of the Loan allocated from time to time to Category (1) of the Table set forth in paragraph 1 of Schedule 1 to this Agreement under Subsidiary Loan Agreements to be entered into between the Borrower and each PIB or Leasing Company respectively, under terms and conditions which shall have been approved by the Bank and which shall include, without limitation, those set forth in Schedule 6 to this Agreement;

(c) monitor the overall execution of Parts A.1 and A.2 of the Project and carrying out by PIBs and Leasing Companies of their respective Subsidiary Loan Agreements in accordance with policies and procedures satisfactory to the Bank;

(d) take or cause to be taken all action necessary or appropriate on its part to enable PIBs and Leasing Companies to perform in accordance with the provisions of their respective Subsidiary Loan Agreements all their obligations therein set forth, and not to take or permit to be taken any action which would interfere with such performance; and

(e) exercise its rights under the Resource Management Agreement and the

Subsidiary Loan Agreements in such manner as to protect the interests of the Bank and the Borrower and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any such Subsidiary Loan Agreement or any provision thereof.

3. For the purposes of carrying out Part A.3 of the Project, the Borrower shall:

(a) select Service Providers, in accordance with the eligibility criteria set forth in Annex B to this Schedule 5 to this Agreement to participate in financial intermediation of the credit and leasing facility to be established under Part A.3 of the Project and procure their services in accordance with the provisions of Section II of Schedule 4 to this Agreement;

(b) enter into an Agency and Cofinancing Agreement with each Service Provider, under terms and conditions which shall have been approved by the Bank, and whereby:

(i) the Service Provider shall relend to Beneficiaries, on behalf of the Borrower for a reasonable fee, the equivalent of the proceeds of the Loan allocated from time to time to Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under a Micro-loan Agreement to be entered into between the Service Provider and a Beneficiary for the purposes of Part A.3 of the Project, under terms and conditions approved by the Bank and which shall include without limitation those set forth in Part B of Annex B to Schedule 5 to this Agreement;

(ii) the Service Provider shall provide at least twenty-five percent (25%) and the Borrower shall provide, from the proceeds of the Loan allocated from time to time to Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, up to seventy-five percent (75%) of the amount of a Micro-loan to the Beneficiary, under terms and conditions approved by the Bank and which shall include without limitation those set forth in Part B of Annex B to Schedule 5 to this Agreement;

(iii) in respect of payment of interest or other charges on, or repayment of principal, made to a Service Provider by a Beneficiary, under the Micro-loan, upon receipt of each such repayment, the Service Provider shall credit the Borrower's corresponding portion to an account of the Borrower maintained for the purposes of the Project.

(c) monitor the overall execution of Part A.3 of the Project and carrying out by Service Providers of their respective Agency and Co-financing Agreements in accordance with policies and procedures satisfactory to the Bank;

(d) take or cause to be taken all action necessary or appropriate on its part to enable Service Providers to perform in accordance with the provisions of their respective Agency and Co-financing Agreements all the obligations therein set forth, and not to take or permit to be taken any action which would interfere with such performance; and

(e) exercise its rights under the Agency and Co-financing Agreements in such manner as to protect the interests of the Bank and the Borrower and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any such Agency and Co-financing Agreement or any provision thereof.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with 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 January 31, 2003, 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, 2003, 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.

5. During the execution of the Project, the Borrower shall maintain the PMU with such staff and resources as shall be required for the PMU to perform its duties in respect of the overall management and implementation of the Project and shall be acceptable to the Bank.

6. During the execution of the Project, the Borrower shall maintain a Steering Committee comprising the representatives of the Ministry of Finance, Ministry of Agriculture and Food, and the National Bank of Romania, which shall oversee the implementation of the Project, and shall inter alia ensure that the PMU has sufficient staff with the required experience and qualifications for the implementation of the Project.

7. For the purposes of carrying out Part B of the Project, the Borrower shall: (a) select up to four (4) PRBs which shall qualify as PIBs under criteria set forth in Annex C of Schedule 5 to this Agreement and agree to participate in an institutional development program for the purposes of Part B.2 of the Project; and (b) relend to PRBs the equivalent of the proceeds of the Loan allocated from time to time to Categories (3)(a) and (4) of the Table set forth in paragraph 1 of Schedule 1 to this Agreement under a Participation Agreement to be entered between the Borrower and each PRB, under terms and conditions which shall have been approved by the Bank and shall include, without limitation, those set forth in Parts B and C of Annex C to Schedule 5 to this Agreement.

8. The Borrower shall assign, under the Resource Management Agreement, the right to manage disbursement of the proceeds of the Loan, to the Treasury Bank, selected in accordance with criteria acceptable to the Bank; and shall not amend, suspend, abrogate or waive the provisions of the Resource Management Agreement without prior approval of the Bank.

9. By October 15, 2001, the Borrower shall issue an Ordinance which will terminate the collection of value added tax on interest income accrued by non-bank lenders on loans made by non-bank lenders.

Annex A to SCHEDULE 5

Terms and Conditions of Sub-loans and Financing Leases

The provisions of this Annex shall apply for the purposes of paragraph 2 (a) of Schedule 5 to this Agreement.

A. Terms and Conditions

1. The principal amount of each Sub-loan or a Financing Lease shall: (a) be denominated in the currency (Dollars or Lei) agreed to by the PIB or Leasing Company, respectively, and the Beneficiary; and (b) be the equivalent in such currency (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 financed out of such proceeds for the Sub-project.

2. Each Sub-loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate determined by the respective PIB or Leasing Company, respectively, in accordance with its investment and lending policies and practices; and (b) made for a period of up to eight (8) years, including up to twelve (12) months grace period.

3. The total amount of all Sub-loans and Financing Leases made to a single Beneficiary shall not exceed: (a) an equivalent of one million Dollars (\$1,000,000) for Beneficiaries other than a Leasing Company; and (b) an equivalent of four million Dollars (\$4,000,000) for Leasing Companies which qualify as Beneficiaries for obtaining Sub-loans from PIBs, or such other amount as the Bank shall establish and promptly notify the Borrower of.

B. Eligibility Criteria

1. Sub-loans and Financing Leases shall be made to Beneficiaries which each shall be qualified, to the satisfaction of the Borrower and the Bank, as:

(a) a duly established enterprise under the laws of the Borrower, with at least fifty-one percent (51%) private shareholding (i.e. shares held by persons or entities other than those owned or controlled by the Borrower, local authorities or any sub-division thereof) which is: (i) domiciled in rural areas; or (ii) domiciled in urban areas and engaged in activities related to the rural economy; or

(b) an individual entrepreneur of Romanian nationality and residing in rural areas.

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

(a) technically feasible and economically, financially and commercially viable; and

(b) designed in accordance with appropriate health, safety and environmental standards consistent with the Borrower's laws and regulations.

3. Sub-loans or Financing Leases shall not be made for Sub-projects which are each determined:

(a) to finance purchase and leasing of land, or purchase of existing buildings;

(b) to finance tobacco-related activities;

(c) to require involuntary resettlement of people; and

(d) to have adverse impact on cultural heritage structures.

C. Other Conditions

1. No expenditures for goods, works or services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless:

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

(b) the Sub-loan or Financing Lease for such Sub-project shall have been a free-limit Sub-loan or Financing Lease (as hereinafter defined) for which the Bank shall have authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than 180 days prior to the date on which the Bank shall have received the request and information required under paragraph 2 (b) of this Annex in respect of such free-limit Sub-loan or Financing Lease. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan or a Financing Lease for a Sub-project to be made by a PIB or a Leasing Company, respectively, in an amount to be financed out of the proceeds of the Loan which shall not exceed, when added to all other free-limit Sub-loans financed or proposed to be financed out of the proceeds of the Loan and which have been or are being used for financing goods, works and services directly and materially related to such Sub-project, the sum determined from time to time by the Bank and notified to the Borrower and each such respective PIB or Leasing Company.

2. (a) When presenting a Sub-loan, other than a free-limit Sub-loan, to the Bank for approval, the respective PIB shall furnish to the Bank, through the Treasury Bank, an application, in form satisfactory to the Bank, together with: (i) a description of

the Beneficiary; (ii) the appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (iii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iv) any such other information as the Bank shall reasonably request.

(b) Each request for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Beneficiary and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Bank prior to September 30, 2005, or such later date as may be agreed upon by the Bank.

3. Sub-loans and Financing Leases shall be made on terms whereby the PIB or Leasing Companies respectively making the Sub-loan or Financing Lease shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Borrower and the Bank, including the right to:

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

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

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

(d) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Sub-loan or obtained through a Financing Lease to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

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

(f) suspend or terminate the right of the Beneficiary to the proceeds of the Sub-loans or the use of goods financed through a Financing Lease, upon failure by such Beneficiary to perform its obligations under its contract with a PIB or a Leasing Company.

Annex B to SCHEDULE 5

Eligibility Criteria for Service Providers and Terms and Conditions of Micro-loans

The principal terms and conditions set forth in this Annex shall apply for the purposes of paragraph 3 (a) and (b) of Schedule 5 to this Agreement.

A. Eligibility Criteria for Service Providers

An Agency and Co-financing Agreement may be entered into with a Service Provider, an entity duly established and operating under the laws of the Borrower, which the Borrower shall have determined, and the Bank shall have agreed, that such Service Provider:

(a) is a private entity which is not owned or controlled by the Borrower, local authorities or any sub-division thereof;

(b) has sufficient capacity and experience in delivering microcredit services;

(c) has the organization, management, staff and other resources required for the efficient carrying out of its operations, including its activities to be undertaken under Part A.3 of the Project;

(d) has sound financial condition and adheres to sound operating policies and procedures determined on the basis if the criteria agreed upon with the Bank; and

(e) has agreed to provide at least twenty-five percent (25%) co-financing to each Micro-loan on terms and conditions set forth in the Operational Manual and Part B of this Annex B to Schedule 5 to this Agreement.

B. Terms and Conditions of Micro-loans

1. The principal amount of each Micro-loan shall: (a) be such that the Service Provider's portion of the principal amount of a Micro-loan shall be denominated in currency agreed to by the Service Provider and the Beneficiary and the Borrower's portion of the principal amount of a Micro-loan shall be denominated in Lei, unless otherwise agreed by the Bank; and (b) be the equivalent in such currency or currencies (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, works and services financed out of such proceeds for the Sub-project.

2. The maximum amount of outstanding Micro-loan or Micro-loans to a single Beneficiary shall not exceed \$7,500 equivalent, or such other amount as the Bank shall establish and promptly notify the Borrower of.

3. Each Micro-loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate which shall be calculated on the basis of guidelines acceptable to the Bank; and (b) made for a period of up to three (3) years.

4. Micro-loans shall be made: (a) to Beneficiaries which each shall qualify in accordance with the criteria set forth in Part B.1(b) of Annex A to Schedule 5 to this Agreement; and (b) for Sub-projects selected in accordance with the provisions of Parts B.2 and B.3 of Annex A to Schedule 5 to this Agreement.

5. Micro-loans shall each be made on terms whereby the Service Provider making the Micro-loan shall enter into a Micro-loan agreement with a Beneficiary to obtain rights adequate to protect its interests and those of the Borrower and the Bank, including the right to:

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

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

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

(d) require the Beneficiary to maintain accounts and records relating to expenditures under the Sub-projects, as shall be consistent with sound business practices;

(e) obtain all such information as the Bank and the Borrower shall reasonably request, relating to the administration, operations and financial conditions of the Sub-projects; and

(f) suspend or terminate the right of the Beneficiary to use of the proceeds of the Micro-loan on account of failure by such Beneficiary to perform its obligations under its Micro-loan Agreement.

Annex C to SCHEDULE 5

Principal Terms and Conditions of Participation Agreements

The principal terms and conditions set forth in this Schedule shall apply for the purposes of paragraph 7 of Schedule 5 to this Agreement.

A. Eligibility Criteria for PRBs

A Participation Agreement may be entered into with a banking institution, which the Borrower shall have determined, and the Bank shall have agreed, that such banking institution: (a) complies with the eligibility criteria specified in Part A of Schedule 6 of this Agreement; and (b) agrees to participate in an institutional development program for the purposes of Part B.2 of the Project.

B. Terms of the PRB Subsidiary Loans

1. The principal amount to be relented out of the proceeds of the Loan to a PRB under the Participation Agreements shall be: (a) denominated in Dollars; and (b) the equivalent of the aggregate amount of the principal of all PRB Subsidiary Loans made out of the proceeds thereof.

2. The PRB Subsidiary Loan shall be charged: (a) on the principal amount thereof withdrawn and outstanding from time to time, interest, during each six-month period commencing on June 30 and December 31 of each calendar year, at a rate equal to LIBOR plus a margin, as shall be calculated on the basis of guidelines acceptable to the Bank; and (b) a stand-by fee at the rate of 0.75% per annum on the principal amount of the PRB Subsidiary Loan not withdrawn from time to time.

3. The PRB Subsidiary Loan shall be repaid in twelve (12) years, including a grace period of up to eighteen (18) months.

4. The right of a PRB to the use of the proceeds of its PRB Subsidiary Loan shall be: (a) suspended upon failure of such PRB to perform any of its obligations under its Participation Agreement or to continue to be in compliance with all legal and regulatory requirements applicable to its operations; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of 60 days.

C. Conditions

Each respective Participation Agreement shall contain provisions pursuant to which each respective PRB shall undertake to:

(a) carry out its activities under Part B of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and to provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) (i) exchange views with, and furnish all such information to the Bank, as may be reasonably requested by the Bank, and the Borrower, with regard to the progress of its activities under Part B of the Project, the performance of its obligations under its respective Participation Agreement, and other matters relating to the purposes of Part B of the Project; and (ii) 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 Participation Agreement; and

(c) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (iii) furnish to the Bank, as soon as available, but in any case not later than six months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Bank shall have reasonably requested; and (iv) furnish to the Bank such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank shall from time to time reasonably request.

SCHEDULE 6

Principal Terms and Conditions of the
Subsidiary Loan Agreements

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

A. Eligibility Criteria for PIBs

A Subsidiary Loan Agreement may be entered into with a banking institution, duly established and operating under the laws of the Borrower for at least two (2) years, which the Borrower shall have determined, and the Bank shall have agreed, that such banking institution:

(a) has at least fifty-one percent (51%) of its shares held by persons or entities other than those owned or controlled by the Borrower, local authorities or any sub-division thereof;

(b) is in compliance with all legal and regulatory requirements applicable to its operations;

(c) is operating pursuant to investment and lending policies and procedures acceptable to the Bank, and has undertaken to maintain said policies and procedures;

(d) has a financial structure and performance satisfactory to the Bank, determined, inter alia, on the basis of capital adequacy, asset quality, reserves, liquidity, earnings and operating costs criteria agreed upon with the Bank;

(e) has the organization, management, staff and other resources required for the efficient carrying out of its operations, including its activities to be undertaken under Part A of the Project; and

(f) is capable of preparing financial statements in accordance with International Accounting Standards (IAS) and has an audit report, including a portfolio review, covering the fiscal year immediately preceding the date of application for participation in the Project, prepared by a firm acceptable to the Bank.

B. Eligibility Criteria for Leasing Companies

A Subsidiary Loan Agreement may be entered into with a Leasing Company, duly established and operating under the laws of the Borrower, which the Borrower shall have determined, and the Bank shall have agreed, that such Leasing Company:

(a) has unqualified financial statements prepared for the year immediately preceding application for participation in the Project and audited by external auditors in accordance with IAS;

(b) is in compliance with all legal and regulatory requirements applicable to its operations;

(c) has at least fifty-one percent (51%) of its shares held by persons or entities other than those owned or controlled by the Borrower, local authorities or any sub-division thereof;

(d) has performance satisfactory to the Bank, determined, inter alia, on the basis of maximum debt to equity and maximum debt service coverage ratios and level of earnings during the year immediately preceding to its application for participation in the Project, as such ratios have been agreed upon with the Bank; and

(e) has obtained an unconditional guarantee issued by a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank.

C. Terms

1. The principal amount to be lent out of the proceeds of the loan to a PIB or a Leasing Company (a Subsidiary Loan) under its respective Subsidiary Loan Agreement shall be: (a) denominated in Dollars; and (b) the equivalent of the aggregate amount of the principal of all Sub-loans made out of the proceeds thereof.

2. The Subsidiary Loan shall be charged: (a) on the principal amount thereof withdrawn and outstanding from time to time, interest, during each six-month period commencing on June 30 and December 31 of each calendar year, at a rate equal to LIBOR plus a margin, as shall be calculated on the basis of guidelines acceptable to the Bank; and (b) a stand-by fee at the rate of 0.75% per annum on the principal amount of the Subsidiary Loan not withdrawn from time to time.

3. The Subsidiary Loan shall be repaid in twelve (12) years, including a grace period of up to eighteen (18) months.

4. The right of a PIB or a Leasing Company to the use of the proceeds of its respective Subsidiary Loan shall be: (a) suspended upon failure of such PIB or Leasing Company to perform any of its obligations under its respective Subsidiary Loan Agreement or to continue to be in compliance with all legal and regulatory requirements applicable to its operations; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of 60 days.

D. Conditions

Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective PIB or Leasing Company shall undertake to:

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

(b) (i) make Sub-loans or Financing Leases to Beneficiaries on the terms and conditions set forth in the Annex A to Schedule 5 to this Agreement; (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Bank, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of Part A of the Project; (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Borrower; and (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, in accordance with procedures satisfactory to the Bank and the Borrower;

(c) (i) exchange views with, and furnish all such information to the Bank, as may be reasonably requested by the Bank, and 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 Loan Agreement, and other matters relating to the purposes of Part A of the Project; and (ii) 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 Loan Agreement; and

(d) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (iii) furnish to the Bank, as soon as available, but in any case not later than six months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Bank shall have reasonably requested; and (iv) furnish to the Bank such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank shall from time to time reasonably request.

