

Public Disclosure Authorized

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**LOAN NUMBER 7358 POL**

# **Loan Agreement**

**(Post-Accession Rural Support Project)**

**between**

**REPUBLIC OF POLAND**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated April 7, 2006**

Public Disclosure Authorized



**LOAN NUMBER 7358 POL**

**LOAN AGREEMENT**

AGREEMENT, dated April 7, 2006, between the REPUBLIC OF POLAND (the Borrower) and the 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 (the Project), 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 Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) “Agricultural Social Insurance Fund” or “KRUS Agency” means the Borrower’s *Kasa Rolniczego Ubezpieczenia Społecznego*, the agency responsible for the administration of the social security system for farmers, headed by a President and encompassing a Head Office, regional branches, local offices and other organizational units;

(b) “Annual Action Plan” means the action plan to be developed not later than November 1 each year by a *gmina* (as hereinafter referred to in paragraph (h) of this Section) identifying the activities that the *gmina* shall address under Part B.2 of the Project for the purposes of obtaining the allocation of funds for the purchase of Social Inclusion Services (as hereinafter defined in paragraph (u) of this Section) under the Social Inclusion Program (as hereinafter defined in paragraph (t) of this Section) and referred to in paragraph 1 of Section B of Schedule 5 to this Agreement;

(c) “Eligible Categories” means Categories (1), (2) and (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) “Eligible Expenditures” means the expenditures for goods, Social Inclusion Services (as hereinafter defined in paragraph (u) of this Section) and consultants’ services referred to in Section 2.02 of this Agreement;

(e) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(f) “Field Implementation Manual” means the Borrower’s manual dated July 9, 2005, developed by the MSP (as hereinafter defined in paragraph (m) of this Section) in consultation with the Bank, setting forth, *inter alia*, the obligations of the different participants to the implementation of the Social Inclusion Program (as hereinafter defined in paragraph (t) of this Section);

(g) “Fiscal Year” means the twelve (12) month period corresponding to any of the Borrower’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(h) “*gmina*” means a district within the Borrower’s territory;

(i) “Implementation Agreement” means the Implementation Agreement to be concluded between the MSP (as hereinafter defined in paragraph (m) of this Section), on behalf of the Borrower, and the KRUS Agency, pursuant to the provisions of Section 3.01 (d) of this Agreement, setting forth the arrangements necessary for the carrying out

of Part A of the Project by the KRUS Agency, and such term includes all schedules to the Implementation Agreement;

(j) “KRUS Agency Statute” means the KRUS Agency Statute approved by the Regulation of the Borrower’s Minister of Social Policy dated July 26, 2005, on “Bestowing a Statute on the Agricultural Social Insurance Fund” published in the Official Journal of the Minister of Social Policy No. 1, Item 1, as amended to the date of this Agreement;

(k) “Law on Farmers’ Social Insurance” means the Borrower’s Law dated December 20, 1990, on Farmers’ Social Insurance published in the Borrower’s 1998 Journal of Law No. 7, Item 25, according to which the KRUS Agency has been established and is operating, as the same may be amended or substituted with a new law from time to time;

(l) “*Marszalek* Office” means a state budget unit established to deliver services to self-governmental administration bodies of the sixteen (16) *voivodships* (as hereinafter defined in paragraph (y) of this Section);

(m) “Ministry of Social Policy” and “MSP” means the Borrower’s Ministry of Social Policy established and functioning pursuant to the provisions of the Decree of the Borrower’s Council of Ministers dated May 2, 2004, on “Creation of the Ministry of Social Policy” published in the Borrower’s Journal of Law No. 106, Item 1116, or any successor thereto;

(n) “Monitoring and Evaluation Indicators” means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the Borrower under the Project to measure the progress in the implementation of the Project and the degree to which the objectives thereof are being achieved;

(o) “National Action Plan” means the Borrower’s National Action Plan for Social Inclusion adopted by the Borrower’s Council of Ministers in September 28, 2004 and outlining the principal challenges in relation to tackling poverty and social exclusion;

(p) “*powiat*” means a sub-province within the Borrower’s territory;

(q) “Procurement Plan” means the Borrower’s procurement plan, dated September 8, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(r) “Regional Social Policy Center” and “RSPC” means a regional office established by a competent body of the *voivodship* self-government (as hereinafter

defined in paragraph (y) of this Section) operating within a *voivodship* and referred to in paragraph 2 of Section A of Schedule 5 to this Agreement;

(s) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(t) “Social Inclusion Program” and “SIP” means the Social Inclusion Program to be established and operated by the Borrower under Part B.2 of the Project;

(u) “Social Inclusion Services” means expenditures incurred to finance the reasonable cost of goods, works and services to be provided under the Social Inclusion Program;

(w) “Social Inclusion Strategy” means the multi-year strategy to be developed by a *gmina* setting forth the targeted impacts of the Social Inclusion Program expenditures over the forthcoming three-four (3-4) year period and identifying the activities that the *gmina* shall address under Part B.2 of the Project for the purposes of obtaining the allocation of funds for the purchase of the Social Inclusion Services under the Social Inclusion Program and referred to in paragraph 1 of Section B of Schedule 5 to this Agreement;

(x) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement; and

(y) “*voivodships*” means a governorate within the Borrower’s territory.

## 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 this Agreement, an amount equal to seventy-two million two hundred thousand Euro (EUR 72,200,000), 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, services and Social Inclusion Services required for the Project and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be December 31, 2009, 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 percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than sixty (60) days after the Effective Date.

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 per cent (0.85%) per annum 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 per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at 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 charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions 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.

### **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: (i) through the MSP, cause the KRUS Agency to carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, social security and technical practices; and (ii) carry out Parts B and C of the Project through the MSP with due diligence and efficiency and in conformity with appropriate administrative, financial, social protection and technical 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.

(c) The Borrower shall make the proceeds of the Loan allocated from time to time to Category (1) available to the KRUS Agency on a grant basis in accordance with its budgetary procedures.

(d) The Borrower, represented by the Minister of Social Policy, shall conclude the Implementation Agreement with the KRUS Agency, represented by its President, under terms and conditions which shall have been approved by the Bank.

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

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 (c) of the General Conditions and without limitation thereto, the Borrower shall:



(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

## ARTICLE IV

### Financial Covenants

Section 4.01 (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, 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 the reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one (1) year after the Bank has received the audit report for, or covering, 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;

- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 of Section C of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Other Covenants**

Section 5.01. The Borrower, through the MSP, shall cause the KRUS Agency:

- (a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice; and
- (b) to carry on its operations and conduct its affairs in accordance with the provisions of the Law on Farmers' Social Insurance, its executive provisions, the KRUS

Agency Statute, and the sound administrative, financial, social security and technical practices resulting from such regulations.

## **ARTICLE VI**

### **Remedies of the Bank**

Section 6.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that the KRUS Agency shall have failed to perform any of its obligations under the Implementation Agreement.

Section 6.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 6.01 of this Agreement shall occur and shall continue for a period of thirty (30) days after notice thereof shall have been given by the Bank to the Borrower.

## **ARTICLE VII**

### **Termination**

Section 7.01. 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 VIII**

### **Representative of the Borrower; Addresses**

Section 8.01. 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 and for the purposes of reallocating from one Category to another Category the amounts of the Loan allocated in the table set forth in Part A.1 of Schedule 1 to this Agreement.

Section 8.02. 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:  
MINF  
Poland

Telex:  
825592 minf pl or  
814386 minf pl

Facsimile:  
(48-22) 826 6670

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	(1-202) 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 Warsaw, Republic of Poland, as of the day and year first above written.

REPUBLIC OF POLAND

By: /s/ Zbigniew Dynak

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Daniela Gressani

Authorized Representative

## 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:

	<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euro)</u>	<u>% of Expenditures to be financed</u>
(1)	Goods and consultants' services under Part A of the Project	24,340,000	90%
(2)	Goods, consultants' services and Operational costs under Parts B.1 and C of the Project	5,720,000	100%
(3)	Social Inclusion Services under Part B.2 of the Project	40,000,000	100%
(4)	Unallocated	2,140,000	
	<b>TOTAL</b>	<u><b>72,200,000</b></u>	

2. For the purposes of this Schedule, the term "Operational Costs" means expenditures incurred to finance the cost of workshops under Part B of the Project, including travel costs, rent of facilities, attendance of participants, accommodation and subsistence, translation and interpretation costs, and costs of materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (i) payments made for expenditures prior to the date of this Agreement; (ii) under Category (1) until and unless: (A) the Bank has received evidence satisfactory that the KRUS Agency has strengthened its ICT Unit with both a structure and staff in numbers suitable to enable the KRUS Agency to carry out Part A of the Project in a manner satisfactory to the Bank; (B) the Bank has received evidence

satisfactory that the Implementation Agreement has been executed between the MSP on behalf of the Borrower and the KRUS Agency; and (C) the Bank has received a duly authorized and executed copy of the Implementation Agreement in form and substance satisfactory to the Bank; (iii) under Category (3), until and unless the Bank has received a satisfactory algorithm for the allocation of SIP funds across *gminas*; and (iv) any expenditures under any Category in the table in paragraph 1 above, unless the Bank has received payment in full of the front-end fee referred to in Section 2.04 of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (i) goods costing less than EUR 500,000 equivalent per contract; (ii) services of individual consultants, costing less than EUR 100,000 equivalent per contract; and (iii) services of consulting firms under contracts costing less than EUR 160,000 equivalent, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

#### B. Special Account

1. The Borrower may open and maintain in Euro a special deposit account in the National Bank of Poland or in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including, in the case of a commercial bank, the obligation of 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) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, 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, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements; or

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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  
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of EUR 6,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

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  
Report-based Disbursements**

1. 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. 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: (i) the amount so requested; and (ii) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to improve: (i) social cohesion and reduce social exclusion in rural underdeveloped *gminas* through enhancing the capacity of local governments to identify, plan, and execute social protection strategies under the Social Inclusion Program; and (ii) the efficiency of the KRUS Agency by better information management and the efficiency of its administrative procedures, in particular during its reform process.

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: Administrative Reform of the KRUS Agency

Strengthening of the KRUS Agency's policies with a view to increase sustainability of the system and improve efficiency, with a special emphasis on supporting the recently-introduced KRUS Agency Informatics and Communications Technology (ICT) Strategy, encompassing:

1. KRUS Agency's Management Support System: Establishment and operation of a functional, modern managerial system including a financial management system, a human resource management system, payroll, procurement management, fixed asset management, and other management systems and any required analytical systems needed to evaluate the effect on the target population of the Agency's operations, its efficiency, and effectiveness.
2. Workflow System: Setting up of a workflow system adequate to process the flows corresponding to the statutory responsibilities of the Agency, in particular, the premium collection and benefit paying sub-systems, and which shall enable the Agency to integrate disparate existing application systems.
3. Archival System: Installation of a long-term archival capacity for paper and electronic records of the Agency, covering both payments toward eligibility and the payment of benefits.
4. ICT Infrastructure: Modernization of the ICT hardware infrastructure in the Agency's two hundred seventy (270) offices, primarily through the supply of equipment to manage the local area network, power, climatization and physical security of the server farm and similar resources used to run the automation services at the local and regional levels.

5. Technical Assistance to the Implementation Effort: Provision of staff services to complement the KRUS Agency ICT staff required to implement the preceding Parts A.1, A.2, A.3 and A.4 of the Project.

Part B: Social Inclusion

Enhancement of social inclusion in rural underdeveloped *gminas*, mainly through the provision of: (i) technical assistance to develop standards, procedures and training materials, for use by *gmina/ powiat/voivodship* management and social policy staff, to assess social needs, and develop strategic social policies and action plans within the context of overall community development plans; and (ii) financial resources to local governments to purchase Social Inclusion Services for youth and adults, that are not sufficiently financed from local, central budget, or European Union sources, and customized demand driven technical assistance and staff training, all of which encompassing:

1. Social Inclusion Framework: Development of techniques for social assessments, social policy strategies, action plans and social service standards, identification of best practices in these areas, and development of a list of training providers designated by the MSP (i.e. train the trainers) to assist *gmina, powiat, and voivodship* self governments in using these techniques.

2. Social Inclusion Program: Establishment within the MSP and financing of the operations of SIP to the benefit of underdeveloped rural *gminas* so as to make available: (i) high priority social services for youth, adults, disabled, and the aged, as identified via local assessments; and (ii) staff training and technical assistance services from the training providers developed under Part B.1 of the Project.

Part C: National Awareness

Carrying out of a program aimed at increasing public awareness of the importance of social inclusion and capacity building for improved delivery of social inclusion activities at regional and local levels, and encompassing:

1. Social Inclusion Public Awareness: Carrying out of: (i) a national public awareness and information campaigns targeted to focus public attention on the importance and efficacy of directing increased resources towards social inclusion; and (ii) a number of regional conferences and a national conference targeted at *voivodship* and *powiat* level managers with the aim of building local social inclusion strategies and further developing national priorities for social inclusion as related to the National Action Plan and the replication of such conferences at the level of groups of *powiat*, with expanded content to cover the activities to be elaborated in greater depth through technical assistance.

2. KRUS Agency Public Awareness: Carrying out of: (i) an external public awareness campaign aimed at informing the public about the changes in the policy environment that defines the contributions and benefits of farmers; and (ii) an internal public awareness campaign focused on the staff of the Agency with a view to elicit their support and generate enthusiasm towards major changes in business procedures and systems that shall impact them and the way services are delivered to the farming population.

3. General Support: Provision of technical assistance to assist the MSP in the handling of procurement and financial management of contracts and expenditures under the Project, including, *inter alia*, assistance to the staff of the MSP, the KRUS Agency and the RSPCs in the building of *gmina* procurement capacity and for consultation on the preparation of technical specifications and bidding documents, assistance to the staff of the MSP in financial management and accounting to enable them to use the Project management information system, to prepare the audits of the Loan and to carry out the impact evaluation of the Project.

\* \* \*

The Project is expected to be completed by June 30, 2009.

### 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: (i) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (ii) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each May 15 and November 15 beginning on May 15, 2011, through November 15, 2020	5%

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) calendar 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 (1) 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 and Consultants' Services**

#### Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

#### Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

#### B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than EUR 500,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions: with respect to eligible contracts procured under the Borrower's Law on Public Procurement, dated January 29, 2004, that became effective on March 2, 2004, the procedures to be followed for national competitive bidding shall be those allowing open tendering for procurement of goods, works and services (other than consultants' services) set forth in said Law with the following clarifications required for compliance with the Procurement Guidelines: the term "Best Offer" shall be understood as the lowest evaluated bid selected following evaluation with use of quantifiable factors expressed in monetary terms. In addition, no merit points system shall be used to evaluate bids.



2. Shopping. Goods and services (other than consultants' services) estimated to cost less than EUR 60,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.
3. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.
4. Community Participation. Goods, works and services (other than consultants' services) required for Part B.2 of the Project may be procured on the basis of community participation in accordance with the following procedures, as the same may be supplemented in the Field Implementation Manual: the conclusion of under lump-sum, fixed-price contracts awarded on the basis of quotations solicited from at least three (3) qualified domestic suppliers or contractors, as the case may be, on the basis of a written request for quotations. The request for quotations shall include a detailed description of the goods, works and services (other than consultants' services), as the case may be, 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 supplier or contractor, as the case may be, who offers the lowest price quotation for the required goods, works or services (other than consultants services), and who has the experience and resources to complete the contract successfully. The MSP shall maintain SIP's records and accounts adequate to enable it to register and monitor, in accordance with the provisions of the Field Implementation Manual, the financial, technical and award aspects of these procedures.

### Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than Euro 160,000 equivalent per contract may comprise entirely national consultants.

#### B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than EUR 160,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Community Participation. Services under Part B.2 of the Project shall be selected and employed under the following procedures, as the same may be supplemented in the Field Implementation Manual: (i) calling for the participation of local communities and/or non-governmental organizations; or (ii) increasing the utilization of local know-how and materials, provided they are efficient and acceptable to the Bank. The procedures shall require, *inter alia*, local advertisement, evaluation of proposals and the use of standard contract forms specifically developed for community-based projects. Non-governmental organizations, local services' providers and other community-based organizations, registered according to the Borrower's legislation, shall be allowed to participate in the selection process. The MSP shall maintain SIP's records and accounts adequate to enable it to register and monitor, in accordance with the provisions of the Field Implementation Manual, the financial, technical and selection and employment aspects of these procedures.

7. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

#### Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

## SCHEDULE 5

### Implementation Program

#### Section A: Institutional Arrangements

##### 1. The MSP

(a) The Borrower, through the MSP, shall coordinate the implementation of Parts B and C of the Project in cooperation with the local governments. To that end, the Borrower, through the MSP, shall allocate throughout Project implementation at least one (1) full-time staff coordinator and the necessary accounting, administrative, and management and information system for a proper coordination at the national level.

(b) More specifically, the MSP shall have overall administrative responsibility for organizing and managing Parts B and C of the Project, in particular: (i) implement all activities under Part B.1 thereof; (ii) provide orientation and training to Regional Social Policy Centers (RSPCs) on the operation of Part B.2 thereof; (iii) establish a Management Information System in cooperation with the Project Coordination Team referred to in paragraph (c) below to compile, track and report on all activities under Part A thereof, in particular social inclusion contracts and expenditures being implemented by *gminas* under the general supervision of the relevant RSPC; and (iv) provide all technical reports on Part B thereof to the Project Coordination Team as needed to comply with the reporting obligations set forth in paragraph 1 of Section C of this Schedule.

(c) With a view to liaise with the KRUS Agency, the Borrower, through the MSP, shall maintain throughout Project implementation, a Project Coordination Team encompassing a small team of consultants, including a procurement specialist and a management information systems specialist.

##### 2. The MSP and the Regional Social Policy Centers

(a) The Regional Social Policy Centers located in each *voivodship* capital city shall serve a coordinating role at the regional level for the implementation of Parts B and C of the Project. To that end, the Borrower, through the MSP, shall require that, throughout Project implementation, each RSPC assign at least one (1) full-time social assistance specialist and the necessary accounting and administrative support in their Social Policy Departments to facilitate Project implementation at the local level.

(b) The Borrower shall transfer a portion of the Loan proceeds according to its budgetary procedure to the *Marszalek* Offices to support the implementation of Part B of the Project at the *gmina* level by forwarding the said funds to *gminas* on the basis of the requests and invoices received from the *gminas* and previously approved by the respective RSPC.

3. The MSP and the KRUS Agency: Information and Communication Technology Unit

In order to enhance the current Information and Communication Technology (ICT) management capacity at the KRUS Agency, the Borrower, through the MSP, shall cause the KRUS Agency to increase the staffing of the ICT Unit to a level adequate for sustaining the centralized operation of its ICT by the end of the implementation of the Project. To that end, the MSP shall cause the KRUS Agency to take all measures necessary to maintain throughout Project implementation the ICT Unit with both a structure and staff in numbers suitable to enable it to carry out Part A of the Project in a manner satisfactory to the Bank.

4. Advisory Council

The existing Council for Social Welfare at the MSP shall be the central advisory council for the Project.

Section B: Implementation Modalities

1. Part B.2 of the Project: the SIP

(a) The RSPCs: the RSPCs shall be responsible for administration of the SIP at the regional level, specifically: (i) providing orientation and training to *gmina* staff on how to apply for SIP allocations; (ii) reviewing and approving *gmina* Social Inclusion Strategies and Annual Action Plans; (iii) orienting and training *gminas* on the suitable procedures for the advertisement, contracting, and implementation of social inclusion services pursuant to the provisions of the Field Implementation Manual; (iv) reviewing and endorsing the proposed service delivery contracts; (v) visiting *gminas* and service providers to monitor implementation of services, including inputting data to the monitoring and information system on all new and ongoing service delivery contracts; and (vi) reviewing and approving invoices for reimbursement from *gminas* for services delivered and forwarding them to the Marszalek Offices for payment.

(b) Gminas: *Gminas* shall be vested responsibility for: (i) developing Social Inclusion Strategies and Annual Action Plans to be reviewed by the RSPC; (ii) advertising, receiving proposals, signing contracts, and monitoring implementation by service providers in application of the procedures defined in the Field Implementation Manual; and (iii) receiving invoices from service providers and reviewing and forwarding them to the relevant RSPC for review and reimbursement.

(c) Eligibility under the SIP: Eligibility under the SIP is reserved for: (i) social inclusion services targeted at three (3) groups of individuals (the elderly, youth, and families) who are citizens and permanent residents in selected *gminas* through local services providers selected following procedures agreed upon with the Bank; and (ii) staff training services for *gmina* staff to assist them in implementing social assessments,

developing Social Inclusion Strategies and Annual Action Plans, and improving the standard of social services delivered to the elderly, the youth and the families, which shall not exceed more than ten percent (10%) of the annual funds allocated to the *gmina*.

(d) Allocation of SIP Resources: Allocation of SIP funds to specific programs and client groups shall be based on the results of social assessments, Social Inclusion Strategies, and Annual Action Plans developed by each selected *gmina* and agreed with the relevant Regional Social Policy Center (RSPC). Once the Social Inclusion Strategy and Annual Action Plan are agreed with the RSPC, *gmina* authorities shall carry out procurement and employ consultants and sign contracts without further approval from the RSPC, with the exception of a specific activity falling outside the parameters of the Field Implementation Manual, which shall require an exception thereto approved by the RSPC.

## 2. Field Implementation Manual

(a) The Borrower, through the MSP, shall take all action required to ensure that the Field Implementation Manual is applied and followed at all times in the implementation, monitoring and evaluation of Part B.2 of the Project.

(b) Except as the Bank shall otherwise agree, the Borrower shall ensure that the MSP shall not assign, amend, abrogate or waive the Field Implementation Manual or any provision thereof.

## Section C: Reporting on Progress and Mid-Term Review

### 1. Progress Reporting

Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower, through the MSP shall, commencing on August 31, 2006, and thereafter, not later than February 28 and August 31 in each calendar year and until Project completion, prepare and furnish to the Bank a semi-annual progress report, of such scope and in such detail as the Bank shall reasonably request, describing, in accordance with the relevant updated Monitoring and Evaluation Indicators, the progress achieved in the implementation of the Project during the preceding calendar semester and the updated Monitoring and Evaluation Indicators for the upcoming calendar semester.

### 2. Mid-Term Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation Indicators 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 June 30, 2007, 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 September 30, 2007, 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.