

CONFORMED COPY

LOAN NUMBER 7384 POL

Loan Agreement

(Third Road Maintenance and Rehabilitation Project)

between

REPUBLIC OF POLAND

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 23, 2006

LOAN NUMBER 7384 POL

LOAN AGREEMENT

Agreement dated June 23, 2006, between REPUBLIC OF POLAND (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred fifty million Euro (EUR 150,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which the Commitment Charge commences to accrue in accordance with the provisions of Section 3.01 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; subject in either case to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.
- 2.06. The Payment Dates are May 15 and November 15 in each year.

- 2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.08. (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 the 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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project and the Program. To this end, the Borrower, through the MOTC: (i) shall cause the GDDKiA to carry out Parts 1 and 2 of the Project; (ii) shall cause the Secretariat of the NRSC to carry out Part 3 of the Project; and (iii) shall carry out Part 4 of the Project, all in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following: that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V - EFFECTIVENESS

- 5.01. The Effectiveness Deadline is the date ninety days (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative and the official of the Borrower designated to request to the Bank the reallocation of the proceeds of the Loan among Categories for the purpose of Section 2.08 of the General Conditions is its Minister of Finance.

- 6.02. The Borrower's Address is:

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

Cable:	Telex:	Facsimile:
MINF Poland	825592 minf pl or 814386 minf pl	(48-22) 826-6670

- 6.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	(1-202) 477-6391

AGREED at Warsaw, Republic of Poland, as of the day and year first above written.

REPUBLIC OF POLAND

By: /s/ Jaroslaw Pietras
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Edgar Saravia
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Borrower in continuing improving the effectiveness of the country's national road rehabilitation and maintenance systems, with emphasis on quality, efficiency, financial viability and road user satisfaction.

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 1: Road Maintenance and Rehabilitation Program

Carrying out of: (i) the Road Maintenance and Rehabilitation Program of maintenance, rehabilitation, strengthening and reconstruction of existing roads selected for financing under GDDKiA's 2006-2007 budget; throughout the National Road Network; (ii) at least one (1) pilot contract for Performance-based Management and Maintenance of Roads, including the provision of technical assistance, facilitation and training during the implementation period thereof; and (iii) a public awareness campaign in support of the Borrower's road construction and rehabilitation program, based on the communication strategy developed by the GDDKiA in 2005.

Part 2: GDDKiA Management Information System

Completion of the implementation of GDDKiA's Management Information System (MIS) through the implementation of a service contract with a telecommunication provider for the Wide Area Network (WAN) and a security system (hardware and software) for the protection of WAN, MIS resources, and Internet access.

Part 3: Road Safety

Support to the Secretariat of the NRSC in the promotion of road safety initiatives and for strengthening of its institutional capacity to carry out road safety programs and projects, including for such purposes, *inter alia*, the carrying out of campaigns and the provision of technical assistance and training.

Part 4: Technical Assistance to the MOTC

Provision of technical assistance as required: (i) to carry out an Intelligent Transport System study with the aim of establishing national standards for gathering and transferring information; (ii) to promote a better and faster absorption of the European Union regional funds for the current (2004-2006) and next (2007-2013) transport operational programs in the Borrower's territory, including the development of a handbook for the use of the MOTC staff and Project beneficiaries which provides guidelines on project selection, preparation, and implementation; (iii) to improve roads technical standards and traffic management; and (iv) to audit the three Bank-financed Road Maintenance and Rehabilitation Projects in Poland.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Ministry of Transport and Construction

The MOTC shall be responsible for overall Project coordination and quality control of the Project through the Project Coordination Unit.

B. Project Coordination Unit

The Borrower shall maintain the PCU within the MOTC, headed by a Project Coordinator, until completion of the Project, with staff, resources and terms of reference satisfactory to the Bank. Specifically, the PCU shall be assigned responsibility for overall Project coordination and monitoring, in close cooperation with the Project Management Teams established, *inter alia*, in the GDDKiA and the Secretariat of the NRSC.

C. Operational Manual

(a) The Borrower, through the MOTC, shall cause the GDDKiA to take all action required to carry out the Project in accordance with the requirements set forth or referred to in the Operational Manual, including, *inter alia*: (i) the procedures for the selection, carrying out, monitoring and evaluation of the maintenance and rehabilitation of works thereunder; (ii) any requirements relating to environmental and social standards satisfactory to the Bank and those required to enforce and monitor the strict adherence by each contractor under Part 1 of the Project to the measures specially designed to ensure that the works in question do not cause or result in Resettlement; and (iii) all applicable laws and regulations of the Borrower relating to work and road safety and environmental protection.

(b) Subject to the Bank's prior approval, the Borrower, through the MOTC, may assign, amend, abrogate or waive the Operational Manual or a provision thereof.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the Monitoring and Evaluation Indicators. Each Project Report shall cover the period of one (1) year, and shall be furnished to the Bank each year not later than March 31.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than forty-five (45) days after the end of each six-month period, interim un-audited financial reports for the Project covering the six-month period, in form and substance satisfactory to the Bank; provided, however, that for the first un-audited financial report covering the period from Project inception through December 31, 2006, the Borrower shall prepare and furnish to the Bank such report not later than February 15, 2007.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one Fiscal Year of the Borrower or other period that may be agreed to by the Bank. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period or other period that may be agreed to by the Bank.

Section III. Procurement

A. General

1. **Goods, Works and Services (Other than Consultants' Services).** All goods, works and services (other than consultants' services) required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement method or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Services (Other than Consultants' Services)

1. **International and National Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and services (other than consultants' services) shall be procured under contracts awarded on the basis of International Competitive Bidding and National Competitive Bidding procedures. In the case of National Competitive Bidding, the Procurement Plan shall specify the circumstances under which this method may be used. Open tendering shall be applied with the following additional procedures: (i) the term "Best Offer" shall be understood as the lowest evaluated bid, selected following evaluation with the use of quantifiable factors expressed in monetary terms; and (ii) no merit points system shall be used to evaluate bids.

Other Methods of Procurement of Goods, Works and Services (Other than Consultants' Services). The following table specifies the methods of procurement, other than International and National Competitive Bidding, which may be used for goods, works and services (other than consultants' services). The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Methods</u>	
(a)	Shopping
(b)	Direct Contracting
(c)	Performance-Based Procurement (ICB)

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Methods</u>	
(a)	Quality-Based Selection
(b)	Selection under a Fixed-Budget
(c)	Least-Cost Selection

(d)	Selection Based on Consultants' Qualifications
(e)	Single Source Selection
(f)	Individual Consultants

D. 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.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank shall specify by notice to the Borrower to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may 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 to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in EUR)	Percentage of Expenditures to be Financed
(1) Roads Maintenance and Rehabilitation Transfers	118,325,000	48%
(2) Works and Technical Assistance under Parts 1 (ii) and (iii) of the Project	20,875,000	100%
(3) Implementation of the MIS under Part 2 of the Project, including expenditures to finance the user fee for the wide-area network under Part 2 of the Project	2,500,000	100%
(4) Road Safety Assistance under Part 3 of the Project	5,500,000	100%
(5) Technical Assistance to the MOTC under Part 4 of the Project	2,800,000	78%
TOTAL AMOUNT	<u>150,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made: (i) from the Loan Account, until the Bank has received payment in full of the Front-end Fee; or (ii) for payments made prior to the date of this Agreement.
2. The Closing Date is September 15, 2011.

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 have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May15 and November15 Beginning on November 15, 2011 through May 15, 2021	5%

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
- (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn 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, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Definitions

1. “Category” means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
3. “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.
4. “GDDKiA” means the Borrower’s General Directorate for National Roads and Motorways, a central body of the Borrower’s administration falling under the supervision of the MOTC (as hereinafter defined in paragraph (8) of this Appendix), and composed of its headquarters office in Warsaw and its sixteen (16) regional offices.
5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
6. “HDM-4 System” means the Highway Development and Management Computerized System within the GDDKiA providing information for the analysis of road management and investment alternatives.
7. “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.
8. “MOTC” means the Borrower’s Ministry of Transport and Construction, or any successor thereto.
9. “National Road Network” means the portion of the Borrower’s road network under the administration of the GDDKiA encompassing a length of about 18,368 km.
10. “NRSC” means the Borrower’s National Road Safety Council, an interdisciplinary body falling under the supervision of the MOTC.
11. “Operational Manual” means the Operations Manual adopted by the Borrower on June 10, 2004, under the Bank-financed Road Maintenance and Rehabilitation Project (Loan Agreement No. 7223-POL dated April 7, 2004) and which may be updated pursuant to the provisions of Section I, paragraph C of Schedule 2 to this Agreement.
12. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.

13. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated March 31, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
14. “Program” means the program setting forth the guiding principles that the Borrower shall follow in relation to its general responsibilities for the road sector and in relation to the specific responsibilities of the GDDKiA with a view to encourage provision of an efficient and sustainable road network capable of supporting the Borrower’s national socio-economic goals and described in a letter dated February 24, 2004, from the Borrower to the Bank.
15. “Project Coordination Unit” and “PCU” means the Project Coordination Unit established by the Borrower within the MOTC under the Bank-financed Road Maintenance and Rehabilitation Project (Loan Agreement No. 7223-POL dated April 7, 2004).
16. “Resettlement” means: (i) the involuntary (i.e., an action that may be taken without a person’s informed consent or power of choice) taking of land, including anything growing on or permanently affixed to such land, such as buildings and crops, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the affected persons, and encompassing restrictions on the use of resources imposed on people living outside a park or protected area, or on those who continue living inside the park or protected area during and after Project implementation.
17. “Road Maintenance and Rehabilitation Program” means the sub-program for road maintenance and rehabilitation co-financed by the Bank, prepared by the GDDKiA with the assistance of the updated HDM-4 System, and which constitutes part of the GDDKiA budget allocated for the management of the National Road Network.
18. “Road Maintenance and Rehabilitation Transfers” means the amount, consisting of forty-eight per cent (48%) out of the proceeds of the Loan and fifty-two per cent (52%) from the Borrower’s own resources made up from the state budget and from a loan from the European Investment Bank, transferred by the Borrower through its Ministry of Finance to the MOTC and through the MOTC to GDDKiA to cover the costs of goods, works and services required for the implementation of the Road Maintenance and Rehabilitation Program.
19. “Secretariat of the NRSC” means the Secretariat of the NRSC, a Unit of the MOTC.