

CONFORMED COPY

LOAN NUMBER 2966 HU

(Technology Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

NATIONAL BANK OF HUNGARY

Dated July 1, 1988

LOAN AGREEMENT

AGREEMENT, dated July 1, 1988, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NATIONAL BANK OF HUNGARY (the Borrower).

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

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the

foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

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

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

(d) "Participating Bank" means any banking institution which satisfies the conditions set forth in Part B of Schedule 6 to this Agreement and with which the Borrower shall have entered into a Subsidiary Financing Agreement;

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

(f) "Beneficiary" means any enterprise to which a Participating Bank proposes to make or had made a Sub-loan;

(g) "Sub-project" means a specific development project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan;

(h) "Project Unit" means the unit established pursuant to the Resolution of the President of the Guarantor's State Office of Technical Development, dated March 29, 1988, and to be maintained in accordance with the provisions of Section 4.02 of the Guarantee Agreement;

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

(j) "Credit Policy Guidelines" means the guidelines regulating the provision of credit by financial institutions in the Hungarian People's Republic as established by Resolution No. 1074 of 1987, of the Council of Ministers of the Guarantor; and

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to fifty million dollars (\$50,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan.

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

Section 2.03. The Closing Date shall be June 30, 1994, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

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

(c) For purposes of this Section:

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

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the

objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out and cause to be carried out the Project and conduct its operations and affairs with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and economic standards and practices with qualified management and staff in accordance with the Basic Law and the Credit Policy Guidelines, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) For the purpose of carrying out Part A of the Project, the Borrower shall make available to the Guarantor the equivalent in the currency of the Guarantor (determined as of the date or respective dates of withdrawals from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services for Part A of the Project and to be financed out of the proceeds of the Loan allocated from time to time to Category (1) under a Subsidiary Loan Agreement to be entered into between the Borrower and the Guarantor, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, terms pursuant to which the Guarantor shall undertake to: (i) repay the principal amount so made available over a period of 15 years, inclusive of a grace period of five years; and (ii) pay interest on the principal amount so made available and withdrawn and outstanding from time to time at a rate of not less than: (A) the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, and (B) an additional charge equal to 20% of the amounts to be paid pursuant to subparagraph (ii) (A) hereof.

(c) For the purpose of carrying out Part B of the Project, the Borrower shall make available to the Participating Banks the equivalent of the proceeds of the Loan referred to in Part A.1 of Schedule 6 to this Agreement under subsidiary financing agreements to be entered into between the Borrower and each of the Participating Banks, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitations, those set forth in Schedule 6 of this Agreement.

(d) The Borrower shall: (i) exercise its rights under the Subsidiary Loan Agreement and the Subsidiary Financing Agreements in such manner as to protect the interest of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement, any of the Subsidiary Financing Agreements, or any provision thereof; and (ii) coordinate and monitor the overall execution of the Project and supervise the carrying out by the Participating Banks of their respective Subsidiary Financing Agreements in accordance with policies and procedures satisfactory to the Bank.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, technical licenses 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations, resources and expenditures in respect of the Project.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section and the records and accounts for the Special Account and for the account referred to in Section 4.02 of this Agreement for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than five months after the end of each such year: (A) certified copies of said accounts for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts as well as the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Except as the Bank shall otherwise agree, the Borrower shall:

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

(b) upon receipt of each such payment or repayments under each such Agreement, credit the same to the said separate account. All amounts to be so credited to the said separate account shall be utilized by the Borrower, to the extent they are not yet required to meet the Borrower's payment obligations to the Bank under this Agreement, exclusively to finance, through the Partici-

pating Banks, technology development projects in accordance with the Credit Policy Guidelines and on the basis of guidelines satisfactory to the Bank.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that the Basic Law or the Credit Policy Guidelines shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

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

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

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

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

(b) that each of the Subsidiary Financing Agreements referred to in paragraph (b) of Section 6.01 of this Agreement has been duly authorized or ratified by the Borrower and a Participating Bank and is legally binding upon the Borrower and such Participating Bank in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

For the Borrower:

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

Cable address:

BANKO
Budapest

Telex:

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

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Wilfried P. Thalwitz
Regional Vice President
Europe, Middle East and North Africa

NATIONAL BANK OF HUNGARY

By /s/ Istvan Ipper
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Amount of the

Category	Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods, consultants' services and training for Part A of the Project	3,450,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods and 100% of foreign expenditures for consultants' services and training
(2) Consultants' services for Part B (1) of the Project	150,000	100% of foreign expenditures

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Goods, technical licenses, consultants' services and training for Part B (2) of the Project	42,000,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods and 100% of foreign expenditures for technical licenses, consultants services and training.
(4) Unallocated	4,400,000	
TOTAL	50,000,000	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) Categories (2) and (3) except for expenditures by a Participating Bank or by a Beneficiary under a Sub-loan made by such Participating Bank after the Bank shall have communicated to the Borrower its acceptance of evidence that a Subsidiary Financing Agreement has been executed on behalf of, and is legally binding upon, the Borrower and such Participating Bank.

SCHEDULE 2

Description of the Project

The objectives of the Project are to (1) strengthen institutional capabilities to facilitate the further upgrading and increased effectiveness of technological research and development, and (2) assist in financing such technological modernization and research and development facilities and resources, as will contribute to improved industrial productivity and competitiveness.

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

Part A:

(1) Carrying out training programs to upgrade the technical skills of staff involved in the selection, formulation and execution of technological research and development programs, including (a) the staff of the Guarantor and its agencies, and the staff of industrial enterprises, in the design, evaluation and administration of such research and development programs, and (b) the Participating Banks' staff, in the identification, appraisal and financing of technology development projects and the supervision of the execution thereof.

(2) Carrying out studies to develop suitable strategies and mechanisms for the allocation of resources for and the financing of further expansion of technological research and development.

(3) Carrying out a program to upgrade the facilities and technical capabilities of the existing institutes for quality control and for metrology.

Part B:

(1) Carrying out a program to assist the Participating Banks in the selection and appraisal of Sub-projects.

(2) The financing, through the provision of loans, including Sub-loans, by the Participating Banks, of specific development projects to be carried out by industrial enterprises for upgrading their research and development facilities, modernizing their products, services and production processes, and strengthening their staff.

* * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15	
beginning March 15, 1994 through September 15, 2003	2,500,000

* The figures in this column represent dollar equivalents

determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Technical Licenses

Part A: International Competitive Bidding

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

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Goods and technical licenses which the Bank agrees are of proprietary nature or need to be compatible with other installed equipment may be procured through direct negotiations with the suppliers thereof, on terms and conditions acceptable to the Bank.

2. Goods and technical licenses which the Bank agrees are

supplied through a limited number of sources, or the timely supply thereof is critical for efficient Project execution, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

3. Goods estimated to cost less than the equivalent of \$100,000 per contract, up to an aggregate amount not to exceed the equivalent of \$15,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least three different countries eligible under the Guidelines in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$750,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

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

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

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

Section II. Employment of Consultants

Consultants' services shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Condi-

tions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account.

SCHEDULE 6

Principal Terms and Conditions of the Subsidiary Financing Agreements

Except as the Bank and the Borrower shall otherwise agree, the principal terms and conditions set forth in this Schedule shall apply for the purposes of Section 3.01 (c) of this Agreement.

A. Terms

1. The aggregate amount to be made available by the Borrower to a Participating Bank under its respective Subsidiary Financing Agreement (the Subsidiary Finance) shall be the equivalent in the currency of the Guarantor (determined as of the respective date or dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of:

(a) consultants' services to be financed out of the proceeds of the Loan allocated from time to time to Category (2) for such Participating Bank under Part B (1) of the Project (Part A of the Subsidiary Finance); and

(b) goods and services to be financed out of the proceeds of the Loan allocated from time to time to Category (3) for the Sub-projects to be carried out under Sub-loans made by such Participating Bank under Part B (2) of the Project (Part B of the Subsidiary Finance).

2. The Subsidiary Finance shall be charged on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate of not less than: (a) the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement; and (b) an additional charge equal to 20% of the amounts to be paid pursuant to subparagraph (a) hereof.

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

(a) Part A thereof shall have a maturity of not more than 10 years inclusive of a grace period of not more than three years; and

(b) each portion of Part B thereof utilized in the making of a Sub-loan shall have a maturity calculated to conform to the amortization schedule applicable to such Sub-loan.

4. The right of a Participating Bank to the use of the proceeds of its respective Subsidiary Finance shall be: (a) suspended upon failure by such Participating Bank to perform any of its obligations under its respective Subsidiary Financing Agreement; and (b) terminated if such right shall have been suspended pursuant to paragraph (a) hereof for a continuous period of sixty days.

B. Conditions

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

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

2. has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of its operations and affairs and has undertaken: (a) to carry out the same in accordance with its lending and investment policy statement, referred to in paragraph 1 hereof, and with sound financial standards and practices; and (b) to provide, promptly as needed, the funds, facilities, services and other resources required for the carrying out of its activities under Part B of the Project;

3. has developed and undertaken to: (a) carry out a training program, acceptable to the Borrower and the Bank, for the further strengthening of its staff capabilities in banking operations, project appraisal and supervision methodology, and customer services requirements, (b) employ, as may be determined necessary by the Borrower, consultants with qualifications, experience and terms of reference satisfactory to the Borrower, to assist it in the carrying out its activities under Part B of the Project, (c) procure the consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Section II of Schedule 4 to this Agreement, and (d) use the consultants' services financed out of the proceeds of the Loan exclusively for the purposes of Part B (1) of the Project; and

4. has adopted and undertaken to maintain suitable procedures to enable it effectively to:

(a) (i) make Sub-loans to Beneficiaries for Sub-projects under Part B of the Project on the basis of the criteria, procedures and terms and conditions set forth in the Annex to this Schedule, (ii) exercise its rights in relation to each such Sub-project in such a manner as to protect its interests and the interests of the Bank and the Borrower, comply with its obligations under its respective Subsidiary Financing Agreement and achieve the purposes of Part B of the Project, and (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without the prior appro-

val of the Borrower;

(b) carry out its activities under Part B of the Project, appraise Sub-projects, and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, including the procurement of the goods and services therefor, in accordance with policies and procedures satisfactory to the Bank and the Borrower;

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

(d) promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under Part B of the Project, the accomplishment of the purposes thereof, or the performance of its obligations under its respective Subsidiary Financing Agreement.

5. Has undertaken to: (a) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial conditions; (b) 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 and the Borrower; (c) furnish to the Bank, through the Borrower, as soon as available, but in any case not later than five months after the end of each such year: (i) certified copies of its financial statements for such year as so audited, and (ii) the report of such audit by said auditors in such scope and detail as the Bank or the Borrower shall have reasonably requested; and (d) furnish to the Bank, through the Borrower, such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank or the Borrower shall from time to time reasonably request.

ANNEX TO SCHEDULE 6

Sub-loans under Part B of the Project: Criteria, Procedures and Principal Terms and Conditions

The criteria, procedures and principal terms and conditions set forth in this Annex shall apply for the purposes of paragraph 4 (a) (i) of Part B of Schedule 6 to this Agreement.

1. The principal amount of each Sub-loan shall be the equivalent in the currency of the Guarantor (determined as of the date or respective dates of withdrawals 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, technical licenses, consultants' services and training (the goods and services) for the Sub-project to be carried out under such Sub-loan and to be financed out of the proceeds of the Loan allocated from time to time to Category (3).

2. Sub-loans shall each be made by a Participating Bank for a period not exceeding ten years, inclusive of a grace period not exceeding three years, and on other terms, including those relating to interest and other charges, which are in accordance with the lending and investment policy statement of such Participating Bank.

3. Sub-loans shall be made only:

(a) to Beneficiaries who each shall have established, to the satisfaction of the Participating Bank making the Sub-loan, on the basis of guidelines satisfactory to the Bank, that: (i) it is creditworthy, (ii) its projected cash generation or equity increases shall be sufficient to enable it to meet the estimated expenditures required for the Sub-project, and (iii) it is in a position to continue to maintain a debt to equity ratio of not more than 65:35, a debt service coverage ratio of not less than 1.5:1, and a ratio of current assets to current liabilities of not less than 1.3:1; and

(b) for Sub-projects (i) which the Project Unit shall have certified as falling within the objectives of the Project as set forth in Schedule 2 to this Agreement, and (ii) which are each: (A) determined to be technically feasible and designed in accordance with appropriate safety, health and environmental standards satisfactory to the Bank, and (B) calculated to have a financial rate of return and an economic rate of return of at least 18% each, all as shall be determined and calculated to the satisfaction of the Borrower and the Participating Bank on the basis of an appraisal carried out in accordance with guidelines satisfactory to the Bank.

4. No expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless the Bank shall have authorized withdrawals from the Loan Account in respect of the Sub-loan for such Sub-project and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 5 of this Annex in respect of such Sub-loan.

5. Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a 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.

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

(a) require that each Beneficiary shall undertake to:

(i) carry out and operate the Sub-project with due diligence and efficiency and in accordance with safety, health and environmental standards, satisfactory to the Bank, and with sound technical, financial and managerial standards and practices and provide, promptly as needed, the funds, facilities and other resources required for the purpose; (ii) procure the goods and services to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Agreement, and use such goods and services exclusively in the carrying out of the Sub-project; (iii) enable the Participating Bank, the Bank and the Borrower to inspect such goods and the sites and works included in the Sub-project, the operation thereof, and any relevant records and documents; (iv) take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the

place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods; (v) maintain the debt to equity and debt service coverage ratios and the ratio of current assets to current liabilities as specified in paragraph 3 (a) (iii) of this Annex; (vi) prepare and furnish to the Participating Bank, for forwarding to the Borrower as may be requested by the Bank or the Borrower, all such information as the Bank or the Borrower shall reasonably request relating to the foregoing, to its administration, operations and financial condition and to the benefits to be derived from the Sub-project; and (vii) (A) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial conditions, (B) have its financial statements (balance sheets, income statements and cash flow statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank and the Borrower, (C) furnish to the Participating Bank, for forwarding to the Borrower as may be requested by the Bank or the Borrower, as soon as available, but in any case not later than five months after the end of each such year certified copies of its financial statements for such year as so audited, and the report of such audit by said auditors, of such scope and in such detail as the Bank or the Borrower shall have reasonably requested, and (D) furnish to the Participating Bank, for forwarding to the Borrower as may be requested by the Bank or the Borrower, such other information concerning said accounts, financial statements and records, as well as the audit thereof, as the Bank or the Borrower shall from time to time reasonably request; and

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

