

CONFORMED COPY

LOAN NUMBER 3166 POL

Loan Agreement

(Industrial Export Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

NATIONAL BANK OF POLAND

Dated February 22, 1990

LOAN NUMBER 3166 POL

LOAN AGREEMENT

AGREEMENT, dated February 22, 1990, between
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(the Bank) and NATIONAL BANK OF POLAND (the Borrower).

WHEREAS (A) the Republic of Poland (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 Agreements 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) "Subsidiary Finance" means any loan made by the Borrower pursuant to a Subsidiary Financing Agreement;

(e) "Subsidiary Lending Agreement" means any agreement to be entered into between the Borrower and an Eligible Bank pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time;

(f) "Eligible Bank" means a banking institution with which the Borrower has entered into a Subsidiary Lending Agreement;

(g) "Participating Bank" means a banking institution with which the Borrower has entered into a Subsidiary Financing Agreement;

(h) "Sub-loan" means a loan made or proposed to be made by a Participating Bank out of the proceeds of a Subsidiary Finance to an Investment Enterprise for an Investment Project;

(i) "Investment Enterprise" means any economic unit, duly established and operating under the laws of the Guarantor, to which a Participating Bank proposes to make or has made a Subloan;

(j) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(k) "PAID" means the Borrower's Project Appraisal and Implementation Division to be maintained in accordance with the provisions of Section 3.02 (b) (i) of this Agreement;

(l) "Act" means the National Bank of Poland's Act dated January 31, 1989 of the Guarantor's Council of State, pertaining to the establishment and of operations of the Borrower, as amended to the date of this Agreement;

(m) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Guarantor pursuant to an exchange of letters dated March 14, 1988, and June 28, 1988, between the Guarantor and the Bank, and made available by the Guarantor to the Borrower to assist the Borrower in the financing of consultants' services required for the preparation of the Project and the initial carrying out thereof; and

(n) "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, various currencies that shall have an aggregate value equivalent to the amount of two hundred sixty million dollars (\$260,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the said Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 1996, 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 percent ($3/4$ 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 for each Interest Period equal to the Cost of Qualified

Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 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; Management and Operations of the Borrower

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: (i) carry out Part A of the Project and take all action required on its part to cause Parts B, C and D of the Project to be carried out by the Guarantor, the Eligible Banks and the Participating Banks with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and economic practices, and to enable the Guarantor, the Eligible Banks and the Participating Banks to perform their obligations under their respective Subsidiary Loan Agreement, the Subsidiary Lending Agreements and the Subsidiary Financing Agreements; (ii) provide, promptly as needed, the funds, facilities, services and other resources required for the purpose; and (iii) conduct its operations and affairs under the Project in accordance with sound financial standards and practices, with qualified management and staff.

(b) For the purpose of carrying out Part B of the Project, the Borrower shall make available to the Guarantor the equivalent in dollars (determined as of the date or respective dates of withdraw Al 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 under Part B of the Project and financed out of the proceeds of the Loan allocated from time to time to Category (2) 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 17 years, including a grace period of five years; (ii) pay interest on such principal amount, withdrawn and outstanding from time to time, at a rate equal at least to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, plus an additional charge equal at least to 1.5%.

(c) For the purpose of carrying out Part C of the Project, the Borrower shall make available to the Participating Banks the equivalent of the proceeds of the loan referred to in 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 limitation, those set forth in said Schedule 6.

(d) For the purpose of carrying out Part D of the Project, the Borrower shall make available to the Eligible Banks the equivalent of the proceeds of the Loan referred to in Schedule 7 to this Agreement under

subsidiary lending agreements to be entered into between the Borrower and each of the Eligible Banks, under terms and conditions which shall have been approved by the Bank and which shall include, without limitation, those set forth in said Schedule 7.

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

Section 3.02. (a) The Borrower shall: (i) coordinate and monitor the overall execution of the Project and the carrying out by the Guarantor, the Participating Banks and the Eligible Banks of their obligations under their respective Subsidiary Loan Agreement, Subsidiary Financing Agreements and Subsidiary Lending Agreements in accordance with policies and procedures satisfactory to the Bank; and (ii) take all measures to ensure that, except as the Bank shall otherwise agree: (A) the amount of any Sub-loan or the aggregate amount of all Sub-loans made by one or more of the Participating Banks to any one Investment Enterprise or for any one Investment Project shall not exceed the equivalent of \$4,000,000, and (B) the aggregate amount of all Sub-loans made by the Participating Banks for less than the equivalent of \$100,000 each, shall not exceed the equivalent of \$10,000,000.

(b) In order to facilitate and assist the Borrower in carrying out the tasks referred to in paragraph (a) of this Section, the Borrower shall: (i) maintain PAID with staff, facilities and other resources and terms of reference; and (ii) employ, to the extent required, consultants whose qualifications, experience and terms of reference, all as shall be satisfactory to the Bank.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, the use of goods and services, plans and schedules, records and reports and maintenance, respectively) in respect of Part B of the Project, shall be carried out by the Guarantor pursuant to Section 3.04 of the Guarantee 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 its records and accounts referred to in paragraph (a) of this Section and the records and accounts for the

Special Account for each fiscal year audited, in accordance with 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 six months after the end of each such year, (A) certified copies of the 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, the Subsidiary Loan Agreement or any of the Subsidiary Financing Agreements and the Subsidiary Lending Agreements and thereafter maintain a separate account on its books in accordance with its normal financial practices;

(b) upon receipt of each such payment or repayment, credit the same to the said separate account. All amounts so credited 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 specific

development projects to expand exports.

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 Act 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 event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that at least one Subsidiary Financing Agreement has been executed on behalf of the Borrower and a Participating Bank.

Section 6.02. The following is specified as an additional matter, 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, namely, that the Subsidiary Financing Agreement referred to in Section 6.01 of this Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon such parties 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 Poland
Swietokrzyska 11/21
00-950 Warsaw
Republic of Poland

Cable address:

Telex:

PL NARBANK
Poland

814681 NBP

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Barber B. Conable

President

NATIONAL BANK OF POLAND

By /s/ W. Baka

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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Consultants' services and training under Part A of the Project	500,000)	
(2) Goods, consultants' services and training under Part B of the Project	4,000,000)	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
(3) Under Part C of the Project:	245,000,000)	
(a) goods, technical)	

licenses,)
consultants')
services and)
training)

(b) interest on the Sub-loans		Amount capitalized pursuant to paragraph 2 of the Annex to Schedule 6 to this Agreement
(4) Goods, con- sultants' services and training under Part D of the Project	2,000,000	100% of foreign expenditures and 100% of local expenditures (ex- factory cost) for goods, and 100% of foreign expend- itures for consul- tants' services and training
(5) Refunding of Project Prepa- ration Advance	1,500,000	Amount due pur- suant to Section 2.02 (c) of this Agreement
(6) Unallocated	7,000,000	
TOTAL	260,000,000	

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$25,000,000, may be made on account of payments made for expenditures before that date but after January 1, 1989;

(b) Category (2) on account of expenditures by the Guarantor except after the Bank shall have communicated to the Borrower its acceptance of evidence that the Subsidiary Loan Agreement has been executed on behalf of, and is legally binding upon, the Borrower and the Guarantor;

(c) Categories (3) on account of expenditures by an Investment Enterprise under a Sub-loan made by a Participating Bank except 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; and

(d) Category (4) on account of expenditures by an Eligible Bank except after the Bank shall have communicated to the Borrower its acceptance of evidence that a Subsidiary Lending Agreement has been executed on behalf of, and is legally binding upon, the Borrower and such Eligible Bank.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (1) strengthen institutional capabilities to facilitate the further development of the industrial sector; and (2) assist in financing such productive facilities and resources as will contribute to the expansion of export industries.

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:

Carrying out by the Borrower of:

(1) a program of technical support to develop the organization, policies and procedures of its Banking Supervision Department;

(2) a training program to improve the skills of its staff responsible for the coordination and supervision of Project execution; and

(3) a training program to improve the skills of the staff of banking institutions, including in the technical, market, financial and economic analyses of development projects.

Part B:

Development and carrying out by the Guarantor of a program of technical support and training to facilitate the expansion of industrial exports, restructuring of industry and development of the private sector, including, inter alia:

(1) development of sound accounting and auditing standards, and improvement of the skills of accountants and auditors;

(2) carrying out of appropriate diagnostic analyses and strategies for economic restructuring, including (a) training and technical support for the Guarantor's relevant agencies in the areas of restructuring and privatization, and (b) technical support to develop an assistance scheme to entrepreneurs to help them in the creation of small business ventures; and

(3) carrying out of studies to develop appropriate strategies, including suitable policies and procedures and regulatory framework, for further development of the industrial sector and for facilitating the restructuring of selected sub sectors.

Part C:

The financing, through the provision of loans,

including sub loans, by the Participating Banks, of specific development projects to: (1) improve the management and operations, upgrade the product mix and expand the export potential of industrial enterprises, and to cover their requirements for incremental working capital on account of increased production and sales generated through such projects; and (2) improve the management and operations and expand the facilities of enterprises specializing in providing technical, managerial, export and training services to industrial enterprises.

Part D:

Development and carrying out by the Eligible Banks of programs to strengthen their organizations and functions, including in the appraisal, financing and supervision of the carrying out of development projects, and in foreign currency operations, financial management and internal auditing policies and procedures.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 1 and August 1	
beginning August 1, 1995	
through August 1, 2006	10,835,000
On February 1, 2007	10,795,000

* 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

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than eleven years before maturity	0.65
More than eleven years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

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, including technical licenses, which the Bank agrees are of a proprietary nature and which are estimated to cost less than the equivalent of \$15,000,000 in the aggregate, may be procured through direct negotiations with the proprietors thereof, on terms and conditions satisfactory to the Bank.

2. Goods, including technical licenses, estimated to cost less than the equivalent of \$500,000 per contract, up to an aggregate amount not to exceed the equivalent of \$55,000,000, may be procured under contracts awarded on the basis of evaluation and comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Goods, including technical licenses, which the Bank agrees are supplied through a limited number of sources and which are estimated to cost less than the equivalent of \$35,000,000 in the aggregate, 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 procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

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 of the first four contracts to be procured in accordance with the procedures described in Part A hereof, each of the first two contracts to be procured in accordance with the procedures described in Part C.3 hereof and each other contract estimated to cost the equivalent of \$1,000,000 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.

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: (A) consultants 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.

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) 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 Allocations" means an amount equivalent to \$15,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. 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 shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, 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) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) 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 paragraph 4 of this Schedule 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.

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 said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account;

(a) if, at any time, 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

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 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 an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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. 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 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.

(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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

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 or referred to in this Schedule shall apply for the purposes of Section 3.01 (c) of this Agreement.

A. Terms

1. The principal amount of a Subsidiary Finance to be made available by the Borrower to a Participating Bank under its respective Subsidiary Financing Agreement shall be: (a) the equivalent in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of the goods and services financed out of the proceeds of the Loan allocated from time to time to Category (3) for Investment Projects financed under Subloans made by such Participating Bank under Part C of the Project; and (b) the amount of interest payments on such Sub-loans capitalized as provided in paragraph 3 of this Part.

2. Each Subsidiary Finance shall be charged, on the principal amount thereof withdrawn and outstanding from time to time, interest, during each six-month period commencing January 1 and July 1 of each calendar year, at a rate equal to LIBOR plus a margin, as shall be calculated by the Borrower on the basis of guidelines acceptable to the Bank.

3. Interest payments on the Subsidiary Finance shall be capitalized to the same extent that interest payments on Subloans made out of the proceeds of such Subsidiary Finance are capitalized as provided in paragraph 2 of the Annex to this Schedule.

4. Each Subsidiary Finance shall be repaid in accordance with an amortization schedule pursuant to which each portion 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.

5. The right of each 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 subparagraph (a) hereof for a continuous period of 60 days.

B. Conditions

1. A Subsidiary Financing Agreement shall be entered into only with a banking institution, duly established and operating under the laws of the Guarantor and certified by the Borrower's Banking Supervision Department as in compliance with applicable banking regulations, which the Borrower shall have determined and the Bank shall have agreed, that such institution:

(a) is operating pursuant to a lending and investment policy statement which the Bank and the Borrower shall have judged acceptable;

(b) has satisfactory financial policies and the organization, management, staff and other resources

required for the efficient carrying out of its operations and affairs, including the activities proposed to be undertaken under Part C of the Project;

(c) has agreed to develop, on the basis of guidelines acceptable to the Bank and the Borrower within a period not exceeding one year of the date of its respective Subsidiary Financing Agreement, and thereafter implement an action plan for the strengthening of its: (i) financial structure, including the achievement and maintenance of a capital to risk assets ratio of at least 8%, appropriate aggregate limits on loans to a single borrower or a group of financially associated borrowers and adequate provisions for potential loan losses; and (ii) organization and functions, including in the appraisal, financing and supervision of the carrying out of development projects, and in foreign currency operations, financial management and internal auditing policies and procedures;

(d) has established a credit committee and a technical unit in accordance with and for the purposes set forth in paragraph 2 (d) of this Part; and

(e) has adopted suitable policies and procedures for the auditing, in respect of fiscal year 1989 and of each fiscal year thereafter, of its financial statements in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Bank.

2. Each respective Subsidiary Financing Agreement shall contain provisions pursuant to which each respective Participating Bank shall undertake to:

(a) carry out its activities under Part C of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff, and in conformity with its lending and investment policy statement referred to in paragraph 1 (a) of Part B of this Schedule, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

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

(c) maintain, with staff, facilities and other resources and terms of reference satisfactory to the Bank and the Borrower: (i) a credit committee to be responsible for the provision of assistance and advice to its management on all matters relating to its lending activities, including the evaluation of Sub-loan applications; and (ii) a technical unit to be responsible for appraising and supervising the carrying

out of development projects, including the Investment Projects.

(d) (i) 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 C of the Project, the performance of its obligations under its respective Subsidiary Financing Agreement, and other matters relating to the purposes of Part C of the Project; and (ii) promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Financing Agreement.

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

Principal Terms and Conditions of the Sub-loans

The principal terms and conditions set forth or referred to in this Annex shall apply for the purposes of paragraph 2 (b) (i) of Part B of Schedule 6 to this Agreement.

1. The principal amount of each Sub-loan shall be:
(a) the equivalent in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services for the Investment 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); and
(b) the amount of interest payments on such Sub-loan capitalized as provided in paragraph 2 of this Annex.

2. Sub-loans shall each be made by the respective 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 referred to in paragraph 1 (a) of Part B of Schedule 6 to this Agreement. Interest payments on Sub-loans accrued and payable during the execution of the Investment Projects financed thereunder may be capitalized and paid out of the proceeds of such Sub-loans in accordance with

guidelines satisfactory to the Bank and the Borrower.

3. Sub-loans shall be made only:

(a) to Investment Enterprises which each shall have: (i) established, to the satisfaction of the Participating Bank making the Sub-loan in accordance with such Participating Bank's applicable policies and procedures, that it is creditworthy and that its projected internal cash generation or equity increases and the provision of other financing obtained by it shall be sufficient to enable it to meet the estimated expenditures required for the carrying out of the Investment Project, (ii) undertaken to achieve and maintain financial performance standards acceptable to the Participating Bank on the basis of guidelines satisfactory to the Bank and the Borrower, and (iii) assigned and undertaken to maintain duly qualified and experienced staff in adequate numbers to function as an implementation team to be responsible for the carrying out of the Investment Project; and

(b) for Investment Projects which are each: (i) determined to be technically feasible and designed with appropriate safety, health and environmental standards satisfactory to the Bank, and (ii) calculated: (A) to be carried out within a period not exceeding three years and to generate within a maximum period of four years of its carrying out net earnings in convertible currencies (with the term "convertible currencies" for the purposes herein meaning the currencies designated as such by the Borrower on the basis of principles satisfactory to the Bank) amounting in the aggregate at least to the aggregate equivalent of its cost in such currencies, and (B) 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 by the Participating Bank to the satisfaction of the Borrower, on the basis of appraisals carried out in accordance with guidelines satisfactory to the Bank .

4. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 5 (a) of this Annex in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account 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 (b) of this Annex in respect of such free-limit Sub-loan. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan to be made by a Participating Bank under Part C of the Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$1,000,000 equivalent when added to any other amounts financed or proposed to be financed out of the proceeds of the Loan, provided, however, that the said free-limit shall not apply in respect of the first three such subloans to be so made by each Participating Bank.

5. (a) When presenting a Sub-loan (other than a free-limit Sub loan) to the Bank for approval, the

Participating Bank shall furnish to the Borrower for forwarding to the Bank, an application, in form satisfactory to the Bank, together with: (i) a description of the Investment Enterprise, a description of the expenditures proposed to be financed out of the proceeds of the Loan and, an appraisal of the Investment Project; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization there for; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Participating Bank to be furnished to the Borrower for forwarding to the Bank for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, (ii) the terms and conditions of the Sub loan, including the schedule of amortization therefore, and (iii) such other information as the Bank shall reasonably request.

6. Sub-loans shall be made on terms whereby the Participating Bank shall obtain, by written contract with the Investment Enterprise or by 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 the Investment Enterprise to: (i) carry out and operate the Investment Project with due diligence and efficiency and in accordance with appropriate safety, health and environmental standards, satisfactory to the Bank, and sound technical, financial and managerial standards; (ii) provide, promptly as needed, the funds, facilities, and other resources required for the purpose, and (iii) maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement and (ii) such goods and services shall be used exclusively in the carrying out of the Sub-project;

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

(d) require that the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice;

(e) require the Investment Enterprise to: (i) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial conditions; (ii) 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; (iii) furnish to the Participating Bank, for forwarding to the Bank or the Borrower as the Bank or the Borrower shall so request, as soon as available, but in any case not later than six months after the end

of each such year certified copies of said financial statements 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;

(f) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

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

SCHEDULE 7

Principal Terms and Conditions of the Subsidiary Lending Agreements

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

A. Terms

1. The principal amount to be made available by the Borrower to an Eligible Bank under its respective Subsidiary Lending Agreement shall be the equivalent in dollars (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 the goods and services financed out of the proceeds of the Loan allocated from time to time to Category (4) for such Eligible Bank under Part D of the Project.

2. Each Eligible Bank shall undertake to: (a) repay the principal amount made available to it pursuant to paragraph 1 hereof over a period of 17 years, including a grace period of five years; and (b) pay on such principal amount, withdrawn and outstanding from time to time, interest equal to the rate of interest applicable from time to time to the Subsidiary Finance pursuant to paragraph 2 of Part A of Schedule 6 to this Agreement.

B. Conditions

1. A Subsidiary Lending Agreement shall be entered into only 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 has developed, on the basis of guidelines acceptable to the Bank and the Borrower, a program for the strengthening of its organization and functions proposed to be undertaken under Part D of the Project.

2. Each respective Subsidiary Lending Agreement shall contain provisions pursuant to which each respective Eligible Bank shall undertake to:

(a) carry out its activities under Part D of the Project and conduct its operations and affairs in

accordance with sound financial standards and appropriate practices, with qualified management and staff, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) in order to assist it in the carrying out of its program referred to in paragraph 1 of this Part: (i) employ consultants with qualifications, experience and terms of reference satisfactory to the Bank, and (ii) procure such 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 use such services exclusively in the carrying out of its activities under Part D of the Project;

(c) (i) 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 D of the Project, the performance of its obligations under its respective Subsidiary Lending Agreement, and other matters relating to the purposes of Part D of the Project; and (ii) promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Lending Agreement.

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

