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LOAN NUMBER 7436 POL

Loan Agreement

(Odra River Basin Flood Protection Project)

between

REPUBLIC OF POLAND

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 11, 2007

LOAN NUMBER 7436 POL

LOAN AGREEMENT

AGREEMENT, dated May 11, 2007, between the REPUBLIC OF POLAND (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project;

(B) the Borrower intends to obtain a grant from the European Union (EU) Cohesion Fund and a loan from the Council of Europe Development Bank (CEB), respectively, in an amount equal to one hundred and thirty million Euro (€130,000,000) (the EU Grant) and in an amount equal to two hundred and four million nine hundred thousand Euro (€204,900,000) (the CEB Loan) to assist in financing part of the Project on the terms and conditions set forth, respectively, in arrangements to be entered into between the Borrower and the EU and in an agreement to be entered into between the Borrower and CEB (the CEB Loan 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 for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

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

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to

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

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

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

(a) "displaced person" means a person who as a result of: (i) the involuntary taking of land under the Project is affected in any of the following ways: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not the affected person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas suffers adverse impacts on his or her livelihood;

(b) "DZMiUW" means the Borrower's Dolnoslaski Board for Amelioration and Water Structures, or any successor thereto;

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

(d) "Environmental Assessment and Management Plan" or "EA/EMP" means the Borrower's Environmental Assessment Main Report, dated August 2005, describing the environmental, mitigation, monitoring and institutional measures to be undertaken under the Project to ensure that all environmental concerns are adequately taken into account in the carrying out of the works thereunder;

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

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

(g) “Institute of Meteorology and Water Management” or “IMGW” means the Borrower’s Institute of Meteorology and Water Management falling under the supervision of MOE/KZGW (as hereinafter defined), or any successor thereto;

(h) “KZGW” means the State Water Management Board under the supervision of MOE, or any successor thereto;

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

(j) “MIA” means the Borrower’s Ministry of Interior and Administration, or any successor thereto;

(k) “MOE” means the Borrower’s Ministry of Environment, or any successor thereto;

(l) “MOF” means the Borrower’s Ministry of Finance, or any successor thereto;

(m) “Office of Natural Disasters Recovery” or “ONDR” means the Office of Natural Disasters Recovery within MIA, or any successor thereto;

(n) “Procurement Plan” means the Borrower’s procurement plan, dated December 14, 2006, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(o) “Project Coordination Unit” or “PCU” means the Project Coordination Unit established in Wroclaw by KZGW, or any successor thereto;

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

(q) “Resettlement and Rehabilitation Plan” or “RAP” means the Borrower’s resettlement plan dated August 2005, setting forth the measures necessary to ensure that the displaced persons under Part A of the Project are: (i) informed about their options and rights pertaining to resettlement; (ii) consulted on, offered choices among, and provided with technically and economically feasible resettlement alternatives; (iii) provided: (A) prompt and effective compensation at full replacement cost for losses of assets attributable directly to the Project; (B) assistance (such as moving allowances) during

relocation; and (C) with residential housing, or housing sites, or, as required, agricultural sites for which a combination of productive potential, locational advantages, and other factors is at least equivalent to the advantages of the old site; (iv) offered support after displacement, for a transition period, based on a reasonable estimate of the time likely to be needed to restore their livelihood and standards of living; and (v) provided with development assistance in addition to the aforementioned compensation measures, such as land preparation, credit facilities, training, or job opportunities;

(r) “Resettlement Policy Framework” or “RPF” means the Borrower’s resettlement policy framework for displaced persons dated August 2005, setting forth, *inter alia*: (i) the resettlement principles, the organizational arrangements, and the design criteria to be applied to the activities to be prepared during the implementation of Part B of the Project; (ii) the estimates of the total population to be displaced and the overall resettlement costs; (iii) the assessment of the institutional capacity and procedures of each of the Borrower’s entities that will be responsible for financing of the aforementioned activities; (iv) the methods of valuing affected assets; (v) a description of the implementation process, linking resettlement implementation to civil works; (vi) a description of grievance redress mechanisms and of the mechanisms for consultations with, and participation of, displaced persons in planning, implementation, and monitoring; and (vii) the arrangements for monitoring by the implementing agencies and, if and as required, by independent monitors;

(s) “RZGWGL” means the Borrower’s Regional Authority for Water Management of Gliwice under KZGW, or any successor thereto;

(t) “RZGWWL” means the Borrower’s Regional Authority for Water Management of Wroclaw under KZGW, or any successor thereto;

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

(v) “Marszalek’s office of Dolnoslaskie voivodship” means the Marszalek’s office of the Dolnoslaskie voivodship in Wroclaw, or any successor thereto;

(w) “Dolnoslaski Voivod” means the Dolnoslaski voivod in Wroclaw, or any successor thereto; and

(x) “DLP” and “RDLP” mean the General Directorate of State Forests and Regional Directorate of State Forests, or any successors thereto.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one hundred and forty million one hundred thousand Euro (€140,100,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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

Section 2.03. The Closing Date shall be November 30, 2014, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than sixty (60) days after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to three-fourths of one per cent ($\frac{3}{4}$ of 1%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions, subject to any waiver of a portion of such charge, as may be determined by the Bank from time to time.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project, with due diligence and efficiency and in conformity with appropriate administrative, construction, ecological, engineering, environmental, financial, hydraulic, hydrologic and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than

twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one (1) year after the Bank has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

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

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

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

ARTICLE V

Remedies of the Bank

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

(a) The EU Grant proceeds shall have failed to become available by June 30, 2008, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes, to the satisfaction of the Bank, that adequate funds for the Project are available to the Borrower from other sources.

(b) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the EU Grant or the CEB Loan, as the case may be, shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms, respectively, of the EU Cohesion Fund arrangements or the CEB Loan Agreement, or

(B) any such Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such Agreement; and (B) adequate funds for the Project are available to the Borrower from other sources.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

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 the CEB Loan Agreement has been executed and

delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled.

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 that CEB Loan Agreement has been duly authorized by the Borrower and CEB and is legally binding upon the Borrower and CEB 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 Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions and for the purposes of reallocating from one Category to another Category the amounts of the Loan allocated in the table set forth in Schedule 1 to this Agreement.

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

For the Borrower:

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

Cable address:

Telex:

Facsimile:

MINF
Poland

825592 minf pl or
814386 minf pl

(48-22) 694 5008

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 4776391

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

REPUBLIC OF POLAND

By: /s/ Marta Gajecka

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Edgar Saravia

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euro)</u>	<u>% of Expenditures to be financed</u>
(1) Works		
(a) under Part A.1 of the Project	25,000,000	20%
(b) under Part B of the Project	33,000,000	15%
(c) under Part C.5 of the Project	4,000,000	100%
(2) Resettlement Costs under Part A.2 of the Project	30,000,000	55%
(3) Goods	10,000,000	100%
(4) Consultants' services		
(a) under Part A.3 of the Project	5,000,000	49%
(b) under Part B.4 of the Project	3,000,000	15%
(c) under Parts C and D of the Project	10,000,000	100%
(5) Incremental Operating Costs	2,000,000	100%
(6) Unallocated	<u>18,100,000</u>	
TOTAL	<u>140,100,000</u>	

2. For the purposes of this Schedule:

(a) the term "Resettlement Costs" means expenditures incurred to finance the reasonable cost of land acquisition, replacement value for buildings and other property, relocation of common property, relocation, infrastructure at a new village site, loss of business opportunities, and monitoring and evaluation, respectively, of the

Resettlement Action Plan and Resettlement Policy Framework implementation for the resettlement to be carried out under Part A of the Project; and

(b) the term “ Incremental Operating Costs” means expenditures approved by the Bank and incurred to finance the reasonable cost of office rent, office supplies, utilities, operation and maintenance of equipment and vehicles, and other minor costs necessary for managing the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (i) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding □10,000,000 may be made in respect of Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after January 1, 2007; and (ii) any expenditures under any Category in the table in paragraph 1 above, unless the Bank has received payment in full of the front-end fee referred to in Section 2.04 of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (i) goods costing less than □150,000 equivalent per contract; (ii) works costing less than □5,000,000 equivalent per contract; (iii) for services of individual consultants costing less than □50,000 equivalent per contract; (iv) for services of consulting firms under contracts costing less than □150,000 equivalent per contract; and (v) Incremental Operating Costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

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

B. Special Account

1. The Borrower may open and maintain in Euro a special deposit account in the National Bank of Poland or a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

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

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

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$20,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$10,000,000 until the aggregate amount of withdrawals from the loan account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$20,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of

the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to protect the population in the Odra River Basin against loss of life and damage to property caused by severe flooding, particularly by: (i) reducing the extreme flood peaks through storage in a dry polder on the Odra River upstream of Raciborz town and thus enabling a reduction of the flood peak downstream of the reservoir and allowing better control of the operation of the river system; and (ii) increasing the flood carrying capacity of the Odra River channels through and around Wrocław.

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

Part A: Construction of Raciborz Dry Polder

1. Construction of a dry polder on the Odra River to store flood water with a view to considerably reduce the frequency and severity of future floods, and encompassing an embankment across the Odra valley with right and left bank dikes along the valley and a spillway structure.
2. Resettlement of the displaced persons by the construction of the dry polder and implementation of the RAP.
3. Design, construction supervision, contract management, support for overall Project management and implementation of RAP.

Part B: Modernization of the Wrocław Floodway System

Modernization and upgrading of the Wrocław city flood protection system along the Odra channels passing through and around Wrocław city and increase of their hydraulic capacity, specifically including:

1. improvements to Odra dikes and embankments: comprising works to strengthen and raise embankments and retaining walls;
2. improvements to the Odra Channels: comprising improvements designed to increase the hydraulic capacity of the Odra River and consisting of widening and/or deepening of the channels and works for the related hydraulic structures;

3. flood relief through the Widawa Transfer: increase in the design capacity of the existing Odra-Widawa diversion and in the capacity of the Widawa River channel by widening of the flood plain and reconstruction of dikes and structures along the river;
4. design, construction supervision, contract management, support for Project management and implementation of the RPF; and
5. resettlement: of the displaced persons by the activities of the Wroclaw city flood protection system and implementation of the RPF.

Part C: Improving Flood Management, Monitoring and Evaluation and Supervision of the EA/EMP and RAP

1. Improving emergency preparedness and flood management plans in the Odra River Basin: including: (i) the establishment of an Odra River Flood Management Center (OFMC) for the upper and middle Odra river basin and a working group consisting of representatives of relevant local governments, concerned agencies and other stakeholders involved in flood forecasting, planning and management; (ii) the review and upgrading of the existing plans for flood management and emergency preparedness and crisis management during and after floods; and (iii) the advancement of the development of the Flood Information Centers (OKI), improvement and implementation of the flood simulation models, and preparation of operational plans for operation and management of major flood storage reservoirs and other hydraulic infrastructure in the Odra river basin.
2. Support to improve the flood forecasting system and to operational effectiveness of the system of hydro-meteorological forecasting.
3. Improvements in the flood protection and management plans and assistance in development of projects in the flood sector: including the preparation of a flood management and protection strategy and the identification of priority projects and their ranking, pre-feasibility level studies and a feasibility study for the highest priority projects.
4. Monitoring and evaluation of the Project's impact: evaluation of the success in Project implementation and assessment of its physical, hydrological, environmental, social, and economic impacts, with a view to provide feedback to the MIA, MOE and the Project Steering Committee so that corrective actions could be undertaken in a timely manner, and monitoring of the implementation of the Environmental Management Plan and the Resettlement Action Plan.
5. Implementation of works identified under the EA/EMP: carrying out of works identified in the EA/EMP and falling outside the scope of Parts A and B of the Project and the funding of the Odra 2006 Program, such as the enhancement of the ecological corridor in the Odra River.

Part D: Project Management, Technical Assistance and Training

Provision of support to the Borrower as required for the implementation of the Project and for the preparation of a follow-on project, encompassing provision of technical assistance, operational support for the PCU and institutional strengthening.

* * *

The Project is expected to be completed by May 31, 2014.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
On each May 15 and November 15	
Beginning May 15, 2012 through November 15, 2021	5%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) to the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule; and

(b) any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second

Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such subparagraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement and Consultants' Services

Section I. General

- A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.
- B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.
- C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

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

A. International Competitive Bidding

1. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.
2. For contracts to be co-financed with the E.U. Cohesion fund estimated to cost □5,278,000 equivalent or more, the procurement procedures described under paragraph B.1 shall apply, except that the Bank's Standard Bidding Documents for International Competitive Bidding procedures shall be used and the bidding opportunities shall be advertised in U.N. Development Business, the Europe Journal of Procurement, and the Polish Bulletin of Procurement. The Bank will conduct a prior review of such contracts.
3. Bidders for works, estimated to cost more than □10,000,000 equivalent per contract, shall be pre-qualified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Procurement Guidelines.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than □500,000 equivalent per contract and works estimated to cost less than □5,278,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions: with respect to eligible contracts procured under the Borrower's Law on Public Procurement, dated January 29, 2004, that became effective on March 2, 2004 (as amended May 2006), the procedures to be followed for national competitive bidding shall be those allowing open tendering for procurement of goods, works and technical services set forth in said Law with the following clarifications required for compliance with the Procurement Guidelines: the term "Best Offer" shall be understood as the lowest evaluated bid selected following evaluation with use of quantifiable factors expressed in monetary terms. In addition, no merit points system shall be used to evaluate bids.

2. Shopping. Goods estimated to cost less than □75,000 equivalent per contract and works estimated to cost less than □75,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods, works and services (other than Consultant Services) for repairs and rehabilitation of dikes and structures under emergency conditions: (a) estimated to cost less than □6,000 equivalent per contract may be procured on the basis of provisions of the Polish Law on Public Procurement; and (b) estimated to cost less than □600,000 equivalent per contract, which the Bank agrees meet the requirements for Direct Contracting, may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection.

Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than □150,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

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

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

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than □150,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

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

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (i) each contract for goods estimated to cost the equivalent of □150,000; (ii) each contract for works estimated to cost the equivalent of □5,000,000; and (iii) each contract for consultants' services provided by a firm estimated to cost the equivalent of □150,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of □50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

Section A: Institutional Arrangements

1. Office of Natural Disasters Recovery

The Office of Natural Disasters Recovery (ONDR) in the MIA shall have overall responsibility for Project management and coordination.

Furthermore, ONDR shall be responsible, through the Voivod and Marszalek of Dolnoslaskie, for the supervision of specific Project components to be implemented by the Dolnoslaski Board of Amelioration and Water Structures (DZMiUW).

2. Project Coordination Unit

The PCU shall be vested responsibility for day-to-day management, coordination and management. The PCU shall be maintained with composition and terms of reference acceptable to the Bank and developed in line with Polish procedures. The PCU, jointly with the MOE, shall take the lead in the preparation and revision of the flood management strategy and development of additional project for improving flood management under Part B.3 of the Project. In addition, the PCU shall directly supervise the consultants employed for the monitoring and evaluation of the implementation of the EA/EMP and RAP, who shall report directly to the PCU.

3. Ministry of the Environment/KZGW

The MOE/KZGW shall be responsible for Project implementation through: (i) its Regional Authorities for Water Management (RZGWs) in Gliwice and Wroclaw and the Institute of Meteorology and Water Management (IMGW); and (ii) the State Forest Directorates.

4. Project Steering Committee

The Project Steering Committee (PSC) shall provide guidance and coordinate Project activities at the highest governmental level, review the overall implementation of the Project and resolve any implementation and financing issues. The PSC, with terms of reference and composition acceptable to the Bank, shall be chaired by the Minister of MIA, and the Director of ONDR shall act as the Secretary of the PSC.

Section B: Implementation Modalities

1. Implementing Agencies

(a) RZGWGL shall be specifically responsible for the implementation of Part A.1 and A.3 of the Project and shall appoint a Project implementation team within its structure.

(b) RZGWWL shall be specifically responsible for the implementation of the hydraulic structure works under Part B.2 and B.4 of the Project and shall appoint a Project implementation team within its structure.

(c) DZMiUW shall be responsible for the construction of the dikes under Parts B.1, B.3 and B.4 of the Project, and shall appoint a Project implementation team within its structure.

(d) RZGWWL shall lead the preparation of the improved emergency preparedness and flood management plan under Part C.1 of the Project and shall implement this with the involvement of *voivodships* (governorates), *gminas* (municipalities), cities (such as Raciborz, Opole, Wroclaw), IMGW, the Regional Authority for Water Management of Gliwice (RZGWGL), DZMiUW, and other concerned stakeholders in the Odra basin.

(e) IMGW shall be responsible for carrying out the improvements in the flood monitoring, forecasting and warning systems under Part C.2 of the Project.

(f) PCU shall be responsible for implementing Parts C.3, C.4 and D of the Project.

(g) EA/EMP works under Part C.5 of the Project shall be implemented by the concerned implementing agencies for the respective Project Part which, to the extent possible, shall be included in the construction contracts for main works related to the Project Part or, in the alternative, shall be carried out by the State Forest Directorates.

(h) The enhancement of the ecological corridor in the Odra River valley and other compensation measures under EA/EMP under Part C.5 of the Project shall be implemented by the State Forest Directorates.

2. Environmental Assessment and Management Plan

The Borrower shall take all measures necessary to ensure that the measures identified under the Environmental Assessment and Management Plan are carried out at all times in a timely manner, ensuring that adequate information on the implementation of

said measures is suitably included in the Project progress reports to be prepared pursuant to the provisions of paragraph 1 of Section C of this Schedule.

3. Resettlement and Rehabilitation Plan and Resettlement Policy Framework

The Borrower, through RZGWGL, RZGWWL and DZMiUW, shall take all action necessary on its behalf: (i) to carry out the RAP and the RPF with due diligence and efficiency and at all times provide the funds necessary therefore; (ii) to adequately monitor and evaluate the carrying out of the activities provided in the RAP and in the RPF; and (iii) to maintain the Bank suitably informed of the progress in the implementation of the RAP and the RPF.

4. Polder and Wroclaw Floodway System Safety under Parts A and B of the Project

For the purposes of the polder works under Part A of the Project and the large hydraulic infrastructure works under Part B of the Project, the Borrower shall:

(a) not later than December 31, 2007, appoint an independent Panel of Experts in number, with qualifications, and under terms of reference, all satisfactory to the Bank: (i) to advise the Borrower on matters relative to the safety of the polder and the large hydraulic infrastructure works and other critical aspects of the polder and such infrastructure works, including its appurtenant structures, the catchment area, the area surrounding the reservoir, and the downstream areas; and (ii) to review such matters as investigation, Project formulation, technical design, construction procedures, cracking potential (design provisions, construction measures and surveillance recommendations), the start of its operations and the polder's associated works such as the river diversion during construction, shiplifts, and fish ladders and the large hydraulic infrastructure works;

(b) convene Panel meetings periodically during Project implementation and retain the Panel through the start-up of the polder and the large hydraulic infrastructure works;

(c) prepare and implement a detailed plan for: (i) construction supervision and quality assurance, not later than December 31, 2007; (ii) an instrumentation plan, an operation and maintenance plan, not later than December 2008; and (iii) an emergency preparedness plan, not later than September 30, 2009, all in a manner satisfactory to the Bank; and

(d) after start-up of the operation of the polder and of the large hydraulic infrastructure works, have periodic safety inspections performed by independent qualified professionals who have not been involved with the investigation, design, construction, or operation of the polder; the frequency of such inspections to be decided based on the recommendations of the Panel of Experts at the end of the construction period.

5. Natural Habitats under Part C.5 of the Project

The enhancement of the ecological corridor in the Odra River valley and other compensation measures for the natural habitats (potential Natura 2000 sites) located within the Project area shall be carried out in accordance with the provisions of the EA/EMP.

Section C: Reporting and Review

1. Progress Reports

Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower, through the PCU shall, commencing on June 30, 2007, and thereafter, not later than January 31 in each calendar year and until Project completion, prepare and furnish to the Bank a progress report, of such scope and in such detail as the Bank shall reasonably request, describing, in accordance with the Monitoring and Evaluation Indicators, the progress achieved in the implementation of the Project during the preceding calendar year and its financial projections for the upcoming calendar year.

2. Mid-Term Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation Indicators, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 30, 2011 a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by July 31, 2011, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.