

CONFORMED COPY

LOAN NUMBER 3319 POL

(Telecommunications Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

POLISH POST, TELEPHONE AND TELEGRAPH

Dated May 29, 1991

LOAN NUMBER 3319 POL

LOAN AGREEMENT

AGREEMENT, dated May 29, 1991, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and POLISH POST, TELEPHONE AND TELEGRAPH (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) the Borrower intends to contract from European Investment Bank (EIB) a loan (the EIB Loan) in an aggregate amount equivalent to ninety million dollars (\$90,000,000) to assist in financing the Project on terms and conditions set forth in an agreement (the EIB Loan Agreement) to be entered into between EIB and the Borrower;

(C) 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Act" means Act of Post and Telecommunications of the Guarantor, dated November 23, 1990, pertaining to the establishment and operations of the Borrower, as the same may be amended from time to time;

(b) "Telecommunications Operations" means the Borrower's operations relating to the provision of domestic and international telephone, telegraph, telex and electronic data transmission services;

(c) "Action Plan" means the Borrower's plan of actions for improving its Telecommunications Operations over the 1991-1993 period by the Borrower pursuant to the Resolution of the Director General of the Borrower dated August 13, 1990 and whose outline is set forth in Schedule 6 to this Agreement;

(d) "Project Unit" means the Special Project Implementation Office established by the Borrower pursuant to Resolution of the Director General of the Borrower dated December 15, 1990, and to be maintained in accordance with the provisions of Section 3.01 (c) (i) of this Agreement;

(e) "Tariff Adjustment" means, for the purpose of Section 7.01 (b) of this Agreement, the adjustment to be made to the aggregate level of the Borrower's telecommunications tariffs consisting of an increase or increases, on the basis of a formula acceptable to the Bank, equivalent in the aggregate at least to: (i) the amount of (A) the aggregate increase, during the period between May 2, 1990 and the first day of the quarter within which this Agreement is to become effective, in the Index of Retail Prices of Consumer Goods and Services published monthly by the Guarantor's Central Statistical Office, and (B) 50% of the estimated increase in said Index for the quarter within which this Agreement is to become effective; and (ii) an additional amount equivalent to 30% of the aggregate level of said tariffs after such level has been increased pursuant to subparagraph (i) of this paragraph;

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

(g) "DM" means deutsche mark in the currency of the Federal Republic of Germany.

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 one hundred twenty million dollars (\$120,000,000), 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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) the Borrower shall, for the purposes of the project, open and maintain in DM a special deposit account in a commercial bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 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 March 15 and September 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A and B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and telecommunications practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Part C of the Project shall be carried out by the Guarantor in accordance with the provisions of Article III of the Guarantee Agreement, and for this purpose the Borrower shall make available to the Guarantor, under arrangements satisfactory to the Bank, the proceeds of the Loan allocated from time to time to Category (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement on the terms specified in Section 3.01 (b) of the Guarantee Agreement.

(c) Without limitation upon the provisions of paragraph (a) of this Section and in order to facilitate the efficient carrying out of Parts A and B of the Project, the Borrower shall: (i) maintain the Project Unit with staff and other resources and terms of reference satisfactory to the Bank, to coordinate, supervise and report on the execution of Parts A and B of the Project and the procurement of goods and services therefor; and (ii) employ consultants with qualifications and experience, under terms of reference and in accordance with a time schedule satisfactory to the Bank, to assist (A) in the carrying out of Parts A and B of the Project, and (B) the Project Unit in carrying out the tasks referred to in subparagraph (i) of this paragraph.

Section 3.02. 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.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. (a) The Borrower shall: (i) carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and telecommunications practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; (ii) at all times take all steps required to maintain and renew all rights, privileges and franchises necessary or useful in the conduct of its business; (iii) by December 31, 1991, establish within its organization, in accordance with terms of reference satisfactory to the

Bank, an administratively, operationally and financially independent organizational structure to undertake responsibility for the management and operations of its Telecommunications Operations; and (iv) by June 30, 1992, and under arrangements satisfactory to the Bank, (A) restructure its corporate activities so as to transfer all its operations other than its Telecommunications Operations to a separate entity independent of itself, and (B) reconstitute itself as a joint-stock company under the laws of the Guarantor with operations limited to its Telecommunications Operations.

(b) Without limitation on the generality of paragraph (a) of this Section, the Borrower shall:

- (i) carry out the Action Plan with due diligence and efficiency at all times take all necessary action to achieve the objectives thereof;
- (ii) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators satisfactory to the Bank, the carrying out of the Action Plan and the achievement of the objectives thereof;
- (iii) prepare and furnish to the Bank for review and comments, by May 31 and November 30 of each year, progress reports, in form and substance satisfactory to the Bank, on the progress achieved in the carrying out of the Action Plan and the measures recommended to sustain and further such progress based on the results of the monitoring and evaluation activities performed pursuant to subparagraph (ii) of this paragraph; and
- (iv) by June 30 of each year, update the Action Plan and thereafter implement the measures required to ensure the achievement of the objectives thereof, taking into consideration the conclusions and recommendations of the progress reports prepared pursuant to subparagraph (iii) of this paragraph and the Bank's comments thereon.

Section 4.02. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and telecommunications practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including, without limitation and until it is reconstituted pursuant to Section 4.01 (a) (iv) (B) of this Agreement, separate records and accounts reflecting its operations, resources and expenditures in respect of its Telecommunications Operations.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with appro-

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 its financial statements 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, accounts and financial statements 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 or payment out of the Special 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 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain, in respect of its Telecommunications Operations, a ratio of total operating expenses to total operating revenues not higher than 80% for its 1992 fiscal year and 75% for each of its fiscal years thereafter.

(b) Before June 30 in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section;

- (i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes (including taxes on profits) and payments in lieu of taxes, and provision for depreciation on the average current gross value of the Borrower's fixed assets in operation on a basis acceptable

to the Bank, but excluding interest and other charges on debt.

- (ii) The term "total operating revenues" means revenues from all sources related to operations.
- (iii) The average current gross value of the Borrower's fixed assets in operation shall be calculated as one half of the sum of the gross value of the Borrower's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

Section 5.03. Except as the Bank shall otherwise agree and without limitation upon the provisions of Section 5.02 of this Agreement, the Borrower shall adjust the level of its telecommunications tariffs on the first day of each quarter of each fiscal year as shall be necessary to increase said level by an amount equivalent at least to the aggregate increase in the Index of Retail Prices of Consumer Goods and Services, published monthly by the Guarantor's Central Statistical Office, during the preceding quarter, plus 50% of the estimated increase in said Index for the present quarter, less an amount reflecting the increase in productivity during the preceding quarter, all as shall be determined in accordance with guidelines acceptable to the Bank.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) 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; and

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

(A) the right of the Borrower to withdraw the proceeds of any Loan or grant made to the Borrower for the financing of the project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, 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 on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur; and

(b) the event specified in paragraph (b) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of

paragraph (b) (ii) of that Section.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that all conditions precedent to the effectiveness of the EIB Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(b) that the Tariff Adjustment has been introduced.

Section 7.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Director General of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. 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:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

For the Borrower:

Polish Post, Telegraph and Telephone
00-940 Warsaw
Pl. Makachowskiego 2

Cable address:

GENTEL
WARSAW

Telex:

813001

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Eugenio F. Lari
Acting Regional Vice President
Europe, Middle East and North Africa

POLISH POST, TELEPHONE AND TELEGRAPH

By /s/ Jerzy Stopczyk

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) Goods under Part A of the Project	91,900,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost)
(2) Consultants' services under Part B of the Project	7,100,000)	100%
(3) Consultants' services under Part C of the Project	1,000,000)	
(4) Unallocated	20,000,000	
TOTAL	120,000,000 =====	

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 payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$12,000,000, may be made on account of payments made for expenditures before that date but after February 15, 1991.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in the carrying out of programs of investments and institutional development to: (a) rehabilitate and expand the Borrower's telecommunications facilities and improve the management and operations thereof; and (b) strengthen the regulatory functions of the Guarantor's Ministry of Post and Telecommunications.

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:

Carrying out of a program to rehabilitate and expand the Borrower's telecommunications facilities, including the provision and installation of (1) an overlay digital long-distance network; (2) international telecommunications network, including an Eutelsat ground station; and (3) local switching capacity associated with the long distance network for connection of new subscribers, the majority of which will be high-volume business subscribers.

Part B:

Carrying out of a program to strengthen the organization and management of the Borrower's Telecommunications Operations, including:

(1) development and implementation of (a) an appropriate strategy for digitalization of the telecommunications network; (b) a preliminary traffic matrix to be utilized in the design of telecommunications network development to ensure the technical and economical optimization of such development; (c) appropriate measures to facilitate the introduction of new telecommunications technologies; (d) a modern commercial financial system; (e) suitable financial management information and technical and operational management information systems; (f) an appropriate strategy for rationalization of telecommunications tariffs; and (g) a comprehensive master plan for the management and development of human resources and the streamlining of organizational structures; and

(2) carrying out of a program to train management and staff in the applications of modern telecommunications technologies and in the management of commercial telecommunications operations.

Part C:

Carrying out of a program to strengthen the organization, functions, expertise and operational systems of the staff of the Guarantor's Ministry of Post and Telecommunications responsible for the development and enforcement of the regulatory framework applicable to telecommunications operations, including the provision of staff training in the ways and means of regulating a commercially operating competitive telecommunications sector.

* * *

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 March 15 and September 15	
beginning September 15, 1996 through March 15, 2008	5,000,000

* The figure in this column represents the dollar equivalent 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 and Works

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 Guarantor's territory 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. Items or groups of items to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$11,500,000, may be procured under contracts awarded on the basis of 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.

2. Contracts for goods which the Bank agrees (a) are of a proprietary nature, (b) the timely supply thereof is critical for efficient Project execution, or (c) need to be compatible with other installed equipment, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) with respect to each contract 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, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) the provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Bank has authorized withdrawals on the basis of statements of expenditure.

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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to DM 6,000,000 to be withdrawn from the Loan Account and deposited in 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; or (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

Action Plan Outline

The Action Plan describes the program of objectives, policies and actions designed to facilitate the efficient implementation of the Borrower's institutional development strategy further to develop the organization, management and operations of its telecommunications facilities. The Action Plan indicates the measures to be undertaken by the Borrower pursuant thereto and the time frame within which these measures will be initiated and completed. The Action Plan includes, inter alia:

(a) the measures to define and achieve the Borrower's institutional, operational, financial and planning objectives, and to establish policies to improve the technical, financial and operational performance of Telecommunications Operations, including the design and implementation of measures required for the efficient commercialization of Telecommunications Operations and the introduction of a commercial accounting system and suitable financial management information and technical and operational management information systems, the initial separation of Telecommunications Operations from other operations within the Borrower's organization to be followed by the transfer of operations other than Telecommunications Operations to a separate entity independent of the Borrower and the reincorporation of the Borrower as a joint-stock company under the laws of the Guarantor with operations limited to Telecommunications Operations;

(b) the measures to develop and implement a plan for improving the Borrower's operational efficiency, including reduction of operational cost coupled with increased responsiveness to market signals, upgrading of the quality of telecommunications services with emphasis on customer and service orientation;

(c) the measures to define and implement a comprehensive plan for the management and development of human resources and the streamlining of organizational structures designed to support the Borrower's strategy for commercialization and expansion of Telecommunications Operations and wider application of modern technologies in the carrying out of said Operations; and

(d) the measures to ensure the proper monitoring, evaluation, updating and carrying out of the specific actions required to achieve the objectives of the Action Plan in accordance with the provisions of Section 4.01 (b) of this Agreement.

