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CONFORMED COPY

LOAN NUMBER 4675 RO

Loan Agreement

(Second Private Sector Adjustment Loan)

between

ROMANIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 13, 2002

LOAN AGREEMENT

AGREEMENT, dated September 13, 2002, between ROMANIA (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Bank has received a letter dated January 25, 2002 and an addendum to the letter dated April 11, 2002 from the Borrower which describe a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's private sector (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in two tranches as hereinafter provided;

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 Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999), with modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 18, shall be modified to read:

“‘Project’ means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.”;

(b) Section 4.01 is modified to read:

“Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement.”

(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions”;

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan"; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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) "ALPROM" means a company established pursuant to the Government Decision No. 30, dated January 14, 1991;

(b) "ALRO" means the Romanian aluminum producing company established pursuant to the Government Decision No. 30, dated January 14, 1991;

(c) "Deposit Account" means a deposit account referred to in Section 2.02 (b) of this Agreement;

(d) "Distrigaz Nord" means a gas distribution company established pursuant to the Government Decision No. 334, dated April 28, 2000;

(e) "Distrigaz Sud" means a gas distribution company established pursuant to the Government Decision No. 334, dated April 28, 2000;

(f) "Electrica S.A." means a company established pursuant to the Government Decision No. 627, dated July 31, 2000;

(g) "Petrom" means the Romanian oil and gas company established pursuant to the Emergency Government Ordinance No. 49, dated September 15, 1997;

(h) "Tarom" means an airline company established pursuant to the Government Decision No. 1321, dated December 21, 1990; and

(i) "Termoelectrica S.A." means a company established pursuant to the Government Decision No. 627, dated July 31, 2000.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to three hundred thirty-nine million eight hundred thousand Euro (339,800,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in Euro on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into such Deposit account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure excluded pursuant to the provisions of said Schedule 1, the Borrower shall, promptly upon notice from the Bank, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawal shall be made from the Loan Account: (i) unless the Bank has received the payment of the fee referred to in Section 2.04 of this Agreement; and (ii) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of 169,900,000 unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(A) with the progress achieved by the Borrower in the carrying out of the Program;

(B) that the Borrower's macroeconomic policy framework is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Bank; and

(C) that the actions described in Schedule 3 to this Agreement have been taken.

If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within ninety (90) days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan.

Section 2.05. 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 2.06. (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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) “Interest Payment Date” means any date specified in Section 2.06 of this Agreement.

(iii) “LIBOR Base Rate” means, for each Interest period, the London interbank offered rate for six-month deposits in Euro for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) “LIBOR Total Spread” means, for each Interest Period: (A) one half of one per cent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of the changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than six (6) months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning said Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Public Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Public Finance
17, Apolodor Street
Bucharest, Romania

Telex:

Facsimile:

11239

401 312 4284

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)
64145 (MCI)

(202) 477-6391

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

ROMANIA

By /s/ Mihai Nicolae Tanasescu
Authorized Representative

INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink
Director
South Central Europe Country Unit
Europe and Central Asia

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance, or which the Bank shall have financed or agreed to finance under another loan;
3. expenditures for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	--	Alcoholic beverages
121	--	Tobacco, unmanufactured, tobacco refuse
122	--	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	--	Radioactive and associated materials
667	--	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements

		(cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	--	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Euro)</u>
August 15, 2007	14,160,000
February 15, 2008	14,160,000
August 15, 2008	14,160,000
February 15, 2009	14,160,000
August 15, 2009	14,160,000
February 15, 2010	14,160,000
August 15, 2010	14,160,000
February 15, 2011	14,160,000
August 15, 2011	14,160,000
February 15, 2012	14,160,000

August 15, 2012	14,160,000
February 15, 2013	14,160,000
August 15, 2013	14,160,000
February 15, 2014	14,160,000
August 15, 2014	14,160,000
February 15, 2015	14,160,000
August 15, 2015	14,160,000
February 15, 2016	14,160,000
August 15, 2016	14,160,000
February 15, 2017	14,160,000
August 15, 2017	14,160,000
February 15, 2018	14,160,000
August 15, 2018	14,160,000
February 15, 2019	14,120,000

SCHEDULE 3

Actions Referred to in Section 2.02 (d) (C) of this Agreement

I. Financial Sector

1. The Borrower has offered for sale Banca Comerciala Romana in accordance with applicable management, capital, ownership, legal and regulatory requirements of the National Bank of Romania, and has taken all necessary steps for completing the sale of the said bank.
2. The Borrower has submitted to the Bank evidence on satisfactory progress in implementation of the restructuring plan of the Savings Bank, as such plan has been agreed with the Bank.

II. Privatization

3. The Borrower has offered for sale or has taken irreversible measures, agreed upon with the Bank, for the disposition and sale of assets of ALRO and ALPROM.
4. The Borrower has offered for sale, in privatization pools acceptable to the Bank, eight of the ten companies selected upon agreement with the Bank; and has worked out, from work-out pools acceptable to the Bank, eight of the ten companies selected upon agreement with the Bank, in accordance with the approved restructuring plans.

III. Energy Sector

5. The Borrower has offered Distrigaz Sud and Distrigaz Nord for sale through an open international competitive tender for strategic buyers and announced the sale and the sale process to the public.
6. The Borrower has offered for sale at least fifty-one percent (51%) of the total capital of Petrom, and has made progress with the sale process, in accordance with a privatization plan agreed upon between the Borrower and the Bank.
7. The Borrower has: (a) approved a privatization strategy for two electricity distribution

companies, satisfactory to the Bank, and offered for sale the controlling shares in said companies; and (b) adopted a privatization strategy for the electricity generation sector, acceptable to the Bank.

8. The Borrower has submitted satisfactory evidence to the Bank that the cumulative year-to-date rate of collection for payments to Distrigaz Sud and Distrigaz Nord has reached ninety-seven and a half percent (97.5%) of total billings, and that the accounts payable to the gas producers and gas transmission companies, resulting from gas delivery, will be paid within sixty (60) days, commencing on January 1, 2002.

9. The Borrower has submitted satisfactory evidence to the Bank that: (a) the cumulative monthly rate of collection for payments to Electrica has reached at least ninety-seven and a half percent (97.5%) of total billings for the period commencing from January 1, 2002; (b) the monthly rate of collection for payments to Termoelectrica has reached one hundred percent (100%) of total electricity billings for each month commencing from October 1, 2001; and (c) the cumulative monthly rate of collection for payments to Termoelectrica for district heating supplies has reached at least ninety-seven and a half percent (97.5%) of total billings for the period commencing from January 1, 2002.

IV. Social Protection System

10. The Borrower has: (a) submitted satisfactory evidence that sufficient portion within the Borrower's budget is allocated to finance the Minimum Guaranteed Income Program; and (b) enacted a Law on the National Social Assistance System and enabling legislation, satisfactory to the Bank.

11. The Borrower has enacted legislation, acceptable to the Bank, to strengthen the financial viability and to rationalize the structure and financing mechanism for unemployment benefits.

12. The Borrower has: (a) enhanced and consolidated the public pension pillar reform, through amending necessary legislation in a manner satisfactory to the Bank; and (b) submitted to the Parliament a draft legislation on the Mandatory Private Pension Pillar, satisfactory to the Bank.



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To: