

CONFORMED COPY

LOAN NUMBER 4520-0 POL
4520-1 POL
GEF TRUST FUND GRANT NUMBER TF023381

Loan Agreement

(Rural Environmental Protection Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

NATIONAL FUND FOR ENVIRONMENTAL PROTECTION AND WATER MANAGEMENT

Dated January 20, 2000

LOAN NUMBER 4520-0 POL
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GEF TRUST FUND GRANT NUMBER TF023381

LOAN AGREEMENT

AGREEMENT, dated January 20, 2000, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NATIONAL FUND FOR ENVIRONMENTAL PROTECTION AND WATER MANAGEMENT (the Borrower).

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

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

(C) the Borrower intends to contract from the Nordic Environment Finance Corporation (NEFCO) a grant (the NEFCO Grant) in an amount equivalent to \$1,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the NEFCO Grant Agreement) to be entered into between the Borrower and NEFCO;

(D) by the agreement of even date herewith (the GEF Trust Fund Grant Agreement), the Bank, acting as the implementing agency of the Global Environment Facility (GEF) has agreed to make a grant (the GEF Trust Fund Grant) to the Borrower in the amount of two million two hundred thousand Special Drawing Rights (SDR 2,200,000), to assist in financing the Project on the terms and conditions set forth in the GEF Trust Fund Grant 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 Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six (6) months before 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 and initial operation of the Project, its cost and the benefits derived and to be derived from it, 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."

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

(a) "Beneficiaries" and "Beneficiary" mean collectively the individual farmers or groups of farmers and individually the individual farmer or group of farmers meeting the Eligibility Criteria (hereinafter defined) for assistance under Part A(2) of the Project;

(b) "Eligible Categories" means: (i) categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement for the USD Special Account (hereinafter defined); and (ii) categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement for the EUR Special Account (hereinafter defined);

(c) "Eligibility Criteria" means the criteria adopted by the Borrower and included in the OH (hereinafter defined) for selection of Beneficiaries and FEIIs (hereinafter defined) under Part A(2) of the Project;

(d) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(e) "Euro" and "EUR" each means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

(f) "EUR Tranche" means the amount of the Loan denominated in Euro according to Section 2.01 (b) of this Agreement;

(g) "Farm Contracts" and "Farm Contract" mean collectively the Farm Contracts and individually any Farm Contract to be entered into between the Borrower and a Beneficiary pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to any Farm Contract;

(h) "FEII" means a Farm Environmental Improvement Investment meeting the Eligibility Criteria;

(i) "MIS" means the Management Information System to be established by the Borrower in accordance with the provisions of paragraph 7 of Schedule 5 to this Agreement, to provide computerized monitoring and up-to-date data on Project implementation;

(j) "LITs" means the Local Implementation Teams established by the Borrower

in accordance with the provisions of paragraph 3 of Schedule 5 to this Agreement to assist in Project implementation;

(k) "Loan Tranche" means any of the USD Tranche (hereinafter defined) or the Euro Tranche of the Loan;

(l) "OH" means the Operational Handbook for the carrying out of the Project prepared by the Borrower and adopted pursuant to the provisions of Section 7.01(c) of this Agreement, as the same may be amended from time to time with the agreement of the Bank;

(m) "PIU" means the Project Implementation Unit established by the Borrower for purposes of Project management;

(n) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(o) "PSC" means the Project Steering Committee established by the Borrower to provide policy guidance and oversight of Project implementation;

(p) "Special Accounts" means the accounts referred to in Part B of Schedule 1 to this Agreement, and "USD Special Account" and "EUR Special Account" mean the Special Account in Dollars and the Special Account in Euro, respectively, referred to in said Schedule; and

(q) "USD Tranche" means the amount of the Loan denominated in United States Dollars according to Section 2.01 (a) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement: (a) an amount equal to one million two hundred fifty thousand Dollars (\$1,250,000)(the USD Tranche); and (b) an amount equal to one million one hundred thousand Euro (EUR 1,100,000) (the EUR Tranche).

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: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required under Parts A(1) and B of the Project and to be financed out of the proceeds of the Loan; and (ii) amounts paid (or if the Bank shall so agree, to be paid) on account of withdrawals made to meet the reasonable cost of goods, works and services required under FEIIs under Part A(2) of the Project.

Section 2.03. The Closing Date shall be April 30, 2003 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. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

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 each Loan Tranche 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 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, in respect of each Loan Tranche, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars or 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, in respect of each Loan Tranche, for each Interest Period: (A) three-fourths of one percent (3/4 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 such Loan Tranche; as reasonably determined by the Bank and expressed as a percentage per annum.

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

(d) Whenever, in light of 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 either Loan Tranche other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to said Loan Tranche upon not less than six (6) months' notice to the Borrower and the Guarantor of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower or the Guarantor notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to said Loan Tranche.

Section 2.07. Interest and other charges shall be payable June 15 and December 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of each Loan Tranche 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 the Project through the PIU with due diligence and efficiency and in conformity with appropriate financial, administrative, agricultural, engineering, and environmental 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 Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall make the proceeds of the Loan allocated under Category 1 of the table in paragraph 1 of Part A of Schedule 1 to this Agreement available to Beneficiaries under Farm Contracts to be entered into between the Borrower and such Beneficiaries, under standard terms and conditions which shall have been approved by the Bank, including those set forth in paragraph 4 of Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under any Farm Contract in such

manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, substantially amend, abrogate or waive any Farm Contract or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 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 before 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 establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(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 Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and 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 such records, accounts, and financial statements, and the audit thereof, 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 Project Management Reports or statements of expenditures the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than June 30, 2000, or such later date as the Bank shall agree, to prepare quarterly Project Management Reports, acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Management and Operations of the Borrower

Section 5.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE VI

Remedies of the Bank

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

(a) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of the NEFCO Grant or the GEF Trust Fund Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the NEFCO Grant Agreement and the GEF Grant Agreement, respectively.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, or termination 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.

(b) The OH shall have been amended, suspended, abrogated or repealed without the prior agreement of the Bank.

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

(a) the event specified in paragraph (a) (i) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (a) (ii) of that Section; and

(b) the event specified in paragraph (b) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

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) all conditions precedent to the effectiveness of the GEF Trust Fund Grant Agreement or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled;

(b) all conditions precedent to the effectiveness of the NEFCO Grant Agreement or the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled;

(c) the OH, satisfactory to the Bank, has been adopted by the Borrower; and

(d) the Borrower has furnished to the Bank a short list, satisfactory to the Bank, of auditors required under the provisions of Section 4.01(b)(i) of this Agreement.

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 President 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 (MCI) or
64145 (MCI)

For the Borrower:

National Fund for Environmental Protection
and Water Management

ul. Konstruktorska 3A 02-673
Warsaw
Republic of Poland

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 City of Warsaw, Republic of Poland, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil G. Kavalsky

Acting Regional Vice President
Europe and Central Asia

NATIONAL FUND FOR ENVIRONMENTAL
PROTECTION AND WATER MANAGEMENT

By /s/ Kazimierz Kujda
/s/ Slawomir Skrzypek

Authorized Representatives

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 USD Tranche of the Loan and of the amounts of the EUR Tranche of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Expenditures Category Financed	Amount of the USD Tranche of the Loan Allocated (Expressed in USD)	Amount of the EUR Tranche of the Loan Allocated (Expressed in EUR)	% of to be
(1)(a) Works under amounts under Part A(2) of Contracts the Project	52,000	40,000	82% of disbursed Farm
(b) Goods under amounts under Part A(2) of Contracts the Project	183,500	160,000	50% of disbursed Farm
(2)(a) Goods under foreign Parts A(1) expenditures,	54,500	50,000	100% of

local and B of the			100% of
expenditures (ex-			
cost) and			factory
local			82% of
expenditures for			
items			other
locally			procured
(b) Works under	14,000	10,000	93%
Part B(2) of			
the Project			
(3)(a) Consultants'	359,500	310,000	76%
services under			
Parts A(1) and			
B of the Project			
(b) Auditing	34,000	30,000	75%
services			
(c) Training under	62,000	50,000	78%
Parts A(1) and			
B of the Project			
(4) LIT's	238,000	200,000	78%
Incremental			
Operating Costs			
(5) Fee	12,500	11,000	Amount due
under			Section
2.04 of			this
Agreement			
(6) Unallocated	240,000	239,000	
TOTAL	1,250,000	1,100,000	

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;

(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; and

(c) the term "LITs' incremental operating costs" means expenditures incurred by LITs on account of management of Project implementation for local travel, communications, office supplies, and such other expenditures as may be agreed upon by the Bank but excluding salaries of civil servants. 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 amount not exceeding \$125,000 for the USD Tranche and EUR 110,000 for the EUR Tranche, may be made on account of payments made for expenditures before that date but after February 1, 1999.

4. The Bank may require withdrawals from the Loan Account to be made on the basis

of statements of expenditure, under such terms and conditions as the Bank shall specify by notice to the Borrower, for expenditures for: (a) contracts for works costing less than \$700,000 equivalent each with the exception of the first contract for works, for which withdrawals may be made on the basis of statements of expenditures only after it has been reviewed by the Bank in accordance with the provisions of Part C.2 of Section I of Schedule 4 to this Agreement; (b) contracts for goods costing less than \$100,000 equivalent each; (c) LITs' incremental operating costs; and (d) services under contracts costing less than \$100,000 equivalent each for consulting firms and \$15,000 equivalent each for individual consultants, including training.

B. Special Accounts

1. The Borrower shall open and maintain two special deposit accounts, one in Dollars (the USD Special Account) in respect of amounts withdrawn from the USD Tranche of the Loan, and one in Euro (the EUR Special Account) in respect of amounts withdrawn from the EUR Tranche of the Loan, in 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 a 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) until the Bank shall have received (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of a Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of a 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 Accounts:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) 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 Accounts or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Accounts 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 Accounts 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 USD or EUR

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 relevant 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 Accounts 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 USD or EUR 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 Accounts.

(d) Refunds to the Bank made pursuant to sub-paragraph (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 Accounts When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

The term "Authorized Allocations" means: (a) the amount of \$150,000 to be withdrawn from the USD Tranche in the Loan Account and deposited into the USD Special Account; and (b) the amount of EUR 130,000 to be withdrawn from the EUR Tranche in the Loan Account and deposited into the EUR 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 \$100,000 and the amount of EUR 90,000 until the aggregate amount of withdrawals from the USD Tranche and the EUR Tranche, respectively, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of \$300,000 with respect to the USD Tranche and EUR 260,000 with respect to the EUR Tranche.

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

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

(b) For replenishment of the USD or the EUR Special Account, the Borrower shall furnish to the Bank requests for deposit into such 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 USD or the EUR Special Account, as the case may be, 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 relevant Special Account for Eligible Expenditures. Each such deposit into a 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 Accounts, 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 Allocations. 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 Accounts as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Accounts When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the USD Tranche in the Loan Account shall be deposited by the Bank into the USD Special Account and all withdrawals from the EUR Tranche in the Loan Account shall be deposited by the Bank into the EUR Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into a Special Account shall be withdrawn by the Bank from the USD Tranche or the EUR Tranche in the Loan Account under one or more of the relevant Special Account's Eligible Categories.

2. Each application for withdrawal from the USD Tranche or the EUR Tranche in the Loan Account for deposit into the relevant Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the USD Tranche or the EUR Tranche of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the relevant 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 Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the relevant Special Account, shall not exceed the equivalent of \$300,000 with respect to the USD Tranche and EUR 260,000 with respect to the EUR Tranche.

SCHEDULE 2

Description of the Project

The objective of the Project is to test various interventions to improve environmental conditions in agricultural land through use of environmentally sound agricultural practices and ultimately reduce nutrients entering water bodies.

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: Farm Environmental Improvements

(1) Provision of technical assistance and training to Beneficiaries to help them develop and adopt environmentally sound agricultural practices.

(2) The financing and carrying out under Farm Contracts of FEIIs meeting the Eligibility Criteria.

Part B: Public Awareness and Management

(1) Design and carrying out of a public awareness program to widen understanding of the importance of environmental issues in agriculture.

(2) Preparation, based on the carrying out of social, economic and environmental evaluations and evaluation of Project activities, of a national strategy for replicating the Project, with a view to increasing prevalence of environmentally sound practices in agriculture, including development of least-cost approaches to implement said strategy.

(3) Provision of assistance for the operation of the PIU and financing of incremental operating costs of its LITs.

* * *

The Project is expected to be completed by October 30, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment due	Payment of Principal (Expressed in USD)*	Payment of Principal (Expressed in EUR)**
June 15, 2005	65,000	55,000
December 15, 2005	65,000	55,000
June 15, 2006	65,000	55,000
December 15, 2006	65,000	55,000
June 15, 2007	65,000	55,000
December 15, 2007	65,000	55,000
June 15, 2008	65,000	55,000
December 15, 2008	65,000	55,000
June 15, 2009	65,000	55,000
December 15, 2009	65,000	55,000
June 15, 2010	65,000	55,000
December 15, 2010	65,000	55,000
June 15, 2011	65,000	55,000
December 15, 2011	65,000	55,000
June 15, 2012	65,000	55,000
December 15, 2012	65,000	55,000
June 15, 2013	65,000	55,000
December 15, 2013	65,000	55,000
June 15, 2014	65,000	55,000
December 15, 2014	15,000	55,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

** The figures in this column represent the amount in Euro to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January, 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$700,000 equivalent per contract, up to an aggregate amount not to exceed \$117,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$470,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$31,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the first contract to be procured in accordance with the procedures referred to in paragraph 1 of Part B of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply:

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under Part B of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for assignments of a standard or routine nature under Part B (3) of the Project and for audits estimated to cost less than \$200,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for training and study tours under Part B of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultants Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$15,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the OH.

2. The Borrower shall maintain, until completion of the Project, the PIU, with resources, composition and under terms of reference satisfactory to the Bank, and

shall assign to it responsibility for overall Project implementation and coordination, including:

(a) preparation of bidding documents and administration of bidding procedures and of contracts under the Project;

(b) preparation of disbursement applications under the Loan and the GEF Trust Fund Grant;

(c) management of the Special account referred to in Schedule 1 to the Loan Agreement and the GEF Special Account referred to in Schedule 1 to the GEF Trust Fund Grant Agreement;

(d) maintenance of records and accounts related to the Project, and arranging for the audit thereof; and

(e) preparation of quarterly progress reports and submission thereof to the Borrower, PSC and the Bank.

3. Except as the Bank shall otherwise agree, by March 31, 2000, the Borrower shall ensure the completion of the staffing of the LITs, in accordance with the staffing plan agreed upon with the Bank, and shall assign to LITs responsibility for implementation and coordination of FEIIs under Part A(2) of the Project in accordance with the rules and procedures set forth in the OH, including:

(a) provision of assistance to Beneficiaries in the preparation of FEIIs under the Project;

(b) verification of fulfillment of the Eligibility Criteria in respect of Beneficiaries and proposed FEIIs under the Project;

(c) supervision of implementation of FEIIs under the Project; and

(d) preparation and furnishing to the PIU and the Bank of quarterly progress reports on the operations and expenditures of LITs in accordance with guidelines satisfactory to the Bank.

4. Each Farm Contract to be entered into between the Borrower and a Beneficiary shall include, inter alia, provisions regarding:

(a) a description of the FEII to be financed under the Farm Contract and the amount to be made available for the implementation thereof;

(b) the Beneficiary's contribution to the financing of the FEII;

(c) the arrangements for implementation of such FEII and the obligation of the Beneficiary to furnish the PIU with monthly reports on progress of the implementation thereof; and

(d) the technical assistance needs, if any, to be provided to the Beneficiary for implementation of the FEII.

5. The Borrower shall ensure participation by Beneficiaries, in accordance with the principles set forth in the OH, in the preparation of FEIIs.

6. The Borrower shall maintain, until completion of the Project, the PSC with composition and terms of reference satisfactory to the Bank.

7. The Borrower shall ensure by June 30, 2000, that the MIS has been prepared in accordance with terms of reference agreed upon by the Bank and put into operation by the PIU.

8. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, 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, 2001, 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 June 30, 2001, 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.

