

CONFORMED COPY

LOAN NUMBER 4209-0 POL  
4209-1 POL

Loan Agreement

(Municipal Finance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

POWSZECHNY BANK KREDYTOWY SA W WARSZAWIE

Dated September 5, 1997

LOAN NUMBER 4209-0 POL  
4209-1 POL

LOAN AGREEMENT

AGREEMENT, dated September 5, 1997, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and POWSZECHNY BANK KREDYTOWY SA W WARSZAWIE (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 1 to this Agreement, have requested the Bank to assist in the financing of the Project;

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

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 Loan" of the Bank, dated May 30, 1995, (the General Conditions), with the modifications set forth in Schedule 3 to this Agreement constitute an integral part of this Agreement.

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

(a) "Deutsche Mark Tranche" means the amount of the Loan denominated in Deutsche Mark according to Section 2.01 (b) of the Agreement;

(b) "Deutsche Mark" and "DEM" each means the lawful currency of the Federal Republic of Germany;

(c) "Dollar Tranche" means the amount of the Loan denominated in United States Dollars according to Section 2.01 (a) of this Agreement;

(d) "Free-limit Subloan" means a Subloan, as so defined, which qualifies as a free-limit Subloan pursuant to the provisions of paragraph 4 (b) of Schedule 4 to this Agreement;

(e) "Investment Project" means a specific development project to be carried out by a Sub-borrower utilizing the proceeds of a Subloan;

(f) "Project Coordinator" means the official designated by the Borrower to assume the responsibilities set forth in Schedule 7 to this Agreement towards the implementation of the Project;

(g) "Special Accounts" means the account referred to in Section 2.02 (c) of this Agreement and "Dollar Special Account" and "DEM Special Account" mean the Special Account in Dollar and the Special Account in DEM, respectively, referred to in said section;

(h) "Statutes" means the Statutes of the Borrower as amended to the date of this Agreement;

(i) "Subloan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to a Sub-borrower for an Investment Project; and

(j) "Sub-borrower" means a municipality or an entity or a person operating a municipal service to which the Borrower proposes to make or has made a Subloan.

## 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 eight million Dollars (\$8,000,000) (the Dollar Tranche), and (b) an amount equal to twelve million Deutsche Mark (DEM 12,000,000) (the Deutsche Mark Tranche).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Sub-borrower under a Subloan to meet the cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested.

(b) No withdrawals shall be made in respect of a Subloan unless the Subloan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 4 to this Agreement.

(c) The Borrower may, for the purposes of the Project, open and maintain on its books, under arrangements satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment two special deposit accounts: (i) the first in Dollars (the Dollar Special Account) in respect of amounts withdrawn from

the Dollar Tranche of the Loan; and (ii) the second in Deutsche Mark (the DEM Special Account) in respect of amounts withdrawn from the Deutsche Mark Tranche of the Loan. Deposits into, and payments out of the Special Accounts shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(d) The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures for goods, works, and services under Subloans costing not more than \$2,500,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

Section 2.03. The Closing Date shall be December 31, 2001, 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 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 Dollars or DEM 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 percent (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 Guarantor and Borrower 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 2.05, 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 2.06. Interest and other charges shall be payable May 15 and November 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 2 to this Agreement.

### ARTICLE III

#### Execution of the Project; Management and Operations of the Borrower

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 1 to this Agreement, and, to this end, shall carry out the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Statutes.

(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 7 to this Agreement.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Subloans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 4 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the carrying out of the Investment Projects and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 5 to this Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

### ARTICLE IV

#### Financial Covenants

Section 4.01. The Borrower shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and a projection of the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

(i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound 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 (6) months after the end of each such year, (A) certified copies of said 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 and the audit  
thereof as the Bank shall from time to time reasonably \_\_\_\_\_ request.

(b) 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 Section 4.01 of this  
Agreement, records and accounts reflecting such  
expenditures;

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

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

(iv) ensure that such records and accounts are included in the  
annual audit referred to in paragraph (a) 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 4.03. The Borrower shall take all measures necessary to ensure its  
continued compliance with the requirements of the National Bank of Poland with respect  
to capital adequacy, loan provisioning and exchange risk management.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the  
following additional event is specified, namely, that the Statutes shall have been  
amended, suspended, abrogated, repealed or waived so as to affect materially and  
adversely the operations or the financial condition of the Borrower or its ability to  
carry out the Project or to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the  
following additional event is specified, namely, that the event specified in Section  
5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is  
hereby specified for the purposes of Section 12.04 of the General Conditions

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The President of the Borrower is designated as representative of  
the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

For the Borrower:

Powszechny Bank Kredytowy SA w Warszawie  
ul. Nowy Swiat 6/12  
00-400 Warszawa  
Republic of Poland

Facsimile:

661 71 75

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil G. Kavalsky

Acting Regional Vice President  
Europe and Central Asia

POWSZECHNY BANK KREDYTOWY SA W WARSZAWIE

By /s/ Andrzej Podsiadlo

Authorized Representative

#### SCHEDULE 1

##### Description of the Project

The objective of the Project is to promote the development of a credit market for municipal investments through providing long-term financial resources to commercial banks for municipal lending and assisting such banks in establishing procedures for the identification and appraisal of municipal investment projects.

The Project consists of the provision of Subloans to eligible Sub-borrowers for financing Investment Projects in the areas of water supply, waste water, solid waste, school buildings, street lighting, urban transport, road improvements and such other areas of municipal services as the Bank and the Borrower may agree upon.

\* \* \*

The Project is expected to be completed by June 30, 2001.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Dollars Tranche*	Deutsche Mark Tranche*
November 15, 2002	335,000	500,000
May 15, 2003	335,000	500,000
November 15, 2003	335,000	500,000
May 15, 2004	335,000	500,000
November 15, 2004	335,000	500,000
May 15, 2005	335,000	500,000
November 15, 2005	335,000	500,000
May 15, 2006	335,000	500,000
November 15, 2006	335,000	500,000
May 15, 2007	335,000	500,000
November 15, 2007	335,000	500,000
May 15, 2008	335,000	500,000
November 15, 2008	335,000	500,000
May 15, 2009	335,000	500,000
November 15, 2009	335,000	500,000
May 15, 2010	335,000	500,000
November 15, 2010	335,000	500,000
May 15, 2011	335,000	500,000
November 15, 2011	335,000	500,000
May 15, 2012	335,000	500,000
November 15, 2012	335,000	500,000
May 15, 2013	335,000	500,000
November 15, 2013	335,000	500,000
May 15, 2014	295,000	500,000

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

SCHEDULE 3

Modifications of General Conditions

For the purposes of this Agreement, Section 6.03 of the General Conditions is modified to read as follows:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the

Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, or (g) by the date specified in paragraph 8 (c) of Schedule 4 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i)

have received no applications or requests under subparagraphs (a) or (b) of said paragraph 3; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

#### SCHEDULE 4

##### Procedures for and Terms and Conditions of Subloans

1. To qualify a municipality or a municipally or privately owned entity or a person as a Sub-borrower eligible for the receipt of a Subloan under the project, the Borrower shall require that such municipality or entity or a person: (a) be creditworthy based on an analysis, undertaken in accordance with principles satisfactory to the Bank, of its financial situation; (b) utilize the proceeds of the Subloan in the carrying out of an Investment Project determined by the Borrower (in accordance with appraisal principles satisfactory to the Bank) to be technically, financially and environmentally feasible; and (c) carry out such Investment Project in any of the areas referred to in Schedule 1 to this Agreement.

2. Subloans shall each: (a) be denominated at the option of the Sub-borrower in foreign or local currency; (b) mature over a period of between 5 and 15 years, including a suitable period of grace not exceeding 3 years; and (c) carry interest at a rate ensuring: (i) an appropriate margin for the Borrower over the interest rate payable by it on the Loan in accordance with Section 2.05 of this Agreement; and (ii) with respect to Subloans denominated in local currency, a premium to cover the foreign exchange risk assumed by the Borrower in connection therewith.

3. Unless the Bank and the Borrower may otherwise agree:

(a) a Subloan or Subloans provided for the carrying out of a single Investment Project shall not exceed in the aggregate the equivalent of: (i) \$14,000,000; or (ii) 75% of the investment cost of the Investment Project; whichever is less; and

(b) no Subloan shall be provided in an amount of less than the equivalent of \$250,000.

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

(a) the Subloan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than one hundred eighty days (180) prior to the date on which the Bank shall have received the application and information required under paragraph 5 (a) of this Schedule in respect of such Subloan; or

(b) the Subloan for such Investment Project shall have been a free-limit Subloan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than one hundred and eighty (180) days prior to the date on which the Bank shall have received the request and information required under paragraph 5 (b) of this Schedule in respect of such free-limit Subloan. For the purposes of this Agreement, a free-limit Subloan shall be a Subloan (other than the first Subloan approved under the Project) for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$2,500,000 equivalent, when added to any other outstanding amounts utilized out of the proceeds of the Loan for financing goods and services directly and materially related to such Investment Project.

5. (a) When presenting a Subloan (other than a free-limit Subloan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Sub-borrower and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Subloan, including the schedule of amortization of the Subloan; and



(iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Subloan shall contain: (i) a summary description of the Sub-borrower and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Subloan, including the schedule of amortization therefor.

(c) Except as the Bank may otherwise agree, applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Bank on or before December 31, 2000.

6. Subloans shall be made on terms whereby the Borrower shall obtain, by written contract with the Sub-borrower or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including the right to:

(a) require the Sub-borrower to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and to maintain adequate records;

(b) require that: (i) the goods, works and consultants' services to be financed out of the proceeds of the Loan shall be procured, in accordance with the procedures set forth in Schedule 5 to this Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

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

(d) require that: (i) the Sub-borrower shall take out and maintain with insurers such insurance, against such risks and in such amounts, as shall be consistent with Polish regulations; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Sub-borrower to replace or repair such goods;

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

(f) suspend or terminate the right of the Sub-borrower to the use of the proceeds of the Loan upon failure by such Sub-borrower to perform its obligations under its contract with the Borrower.

## SCHEDULE 5

### Procurement and Consultants' Services

#### Section I. Procurement of Good 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 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Items of works estimated to cost per contract the equivalent of \$5,000,000 or more, and item of goods estimated to cost per contract the equivalent of \$400,000 or more shall be procured under contracts awarded in accordance with the provisions of Section II to the Guidelines for procurement under IBRD Loan and IDA Credit published

by the Bank in January 1995 and revised in January and August 1996 (the Guidelines).

2. The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Guarantor.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods, which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Items of works estimated to cost less than \$5,000,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International or National Shopping

(a) Goods estimated to cost less than \$400,000 equivalent per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(b) Goods estimated to cost less than the equivalent of \$100,000 per contract may be procured under contract awarded on the basis of national shopping procedures in accordance with the provisions of the Guidelines referred to in the above paragraph (a).

4. Procurement of Small Works

Works estimated to cost \$300,000 equivalent or less per contract, may be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the work, including basic specifications, the required completion date, a basic form of agreement 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 successfully complete the contract.

Part D: Review by the Bank of Procurement Decisions

1. Prior Review

With respect to: (a) each contract to be procured in accordance with the procedures referred to in Part B and Part C.1 of this Section; and (b) the first contract for works to be awarded according to the provisions of paragraph C 2 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

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

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

#### SCHEDULE 6

#### Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the carrying out of Investment Projects and to be financed out of the proceeds of the Loan; provided, however, that notwithstanding the provisions of paragraph 5 (b) of Schedule 4 to this Agreement, payments for expenditures to be financed out of the proceeds of free-limit Subloans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(b) the term "Authorized Allocations" means: (i) the amount of \$1,200,000 to be withdrawn from the Dollar Tranche in Loan Account and deposited into the Dollar Special Account; and (ii) the amount of DEM 2,000,000 to be withdrawn from the Deutsche Mark Tranche in the Loan Account and deposited into the DEM Special Account, pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount \$600,000 and the amount of DEM 1,000,000 until the aggregate amount of withdrawals from the Dollar Tranche and the Deutsche Mark 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 be equal to or exceed the equivalent of \$1,800,000 with respect to the Dollar Tranche and DEM 3,000,000 with respect to the Deutsche Mark Tranche.

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

(b) (i) For replenishment of the Dollar or the DEM Special Account, the Borrower shall furnish to the Bank requests for deposits into such 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 Dollar or the DEM 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.

4. For each payment made by the Borrower out of the Dollar or the DEM 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 Special Accounts:

(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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.02 (a) (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 the records and accounts for the Special Accounts;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Dollar or the DEM 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 relevant 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 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 shall have determined at any time that any amount outstanding in the Dollar or the DEM 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 Accounts.

(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 7

#### Implementation Program

1. The Borrower shall assign to the Project Coordinator the general responsibility for: (i) appraisal of Investment Projects; (ii) financial management of the Subloans; (iii) maintenance of Project accounts and arranging for the audit thereof; (iv) preparation and presentation to the Bank of documentation required for withdrawal of the proceeds of the Loan; (v) supervision of implementation of the Investment Projects; and (vi) preparation and furnishing to the Bank of semiannual reports on the status of such implementation.

2. The Borrower shall:

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

(b) prepare and furnish to the Bank, on or about July 31, 1999, 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 November 30, 1999, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph, 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 views on the matter.

