

CONFORMED COPY

LOAN NUMBER 3724 RO

Loan Agreement

(Education Reform Project)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 23, 1994

LOAN NUMBER 3724 RO

LOAN AGREEMENT

AGREEMENT, dated May 23, 1994, between ROMANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "Special Account" means the account referred to in Section 2.02 of this Agreement;
- (b) "MOE" means the Borrower's Ministry of Education, or any successor thereto;
- (c) "Project Operating Manual" means the Borrower's manual setting forth the criteria and guidelines for the carrying out and operations of the Project, dated December 17, 1993, as the same may be amended from time to time with the agreement of the Bank; and
- (d) "CPD" means Casa Personalului Didactic (Teacher Training Centers), maintained by the Borrower in the relevant administrative subdivisions of Romania for the purpose of support of the professional development of teachers.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of fifty million dollars (\$50,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank acceptable to the Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2000 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 commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

- (b) As soon as practicable after the end of each Semester, the Bank

shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on May 1 and November 1 in each year.

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

ARTICLE III

Execution of the Project

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

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

Section 3.02. 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, 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 and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the Project Coordination Unit referred to in paragraph 1 (b) of Schedule 5 to this Agreement has been established with staff and other resources and terms of reference as provided in said paragraph.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
17 Apolodor Street
Bucharest, Romania

Telex:

11239

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:

INTBAFRAD
Washington, D.C.

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

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

ROMANIA

By /s/ Vasile Puscas
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Michael Wiehen
Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

| Amount of the Loan Allocated | % of |
|---------------------------------|------|
|---------------------------------|------|

| Category | (Expressed in Dollar Equivalent) | Expenditures to be Financed |
|---|----------------------------------|---|
| (1) Goods | 30,500,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 95% of local expenditures for other items procured locally |
| (a) For Part A(5) of the Project | 500,000 | |
| (b) For all other parts of the Project | 30,000,000 | |
| (2) Consultants' services, studies, research and training | 13,500,000 | 100% |
| (a) For Part A(5) of the Project | 1,500,000 | |
| (b) For all other parts of the Project | 12,000,000 | |
| (3) Incremental operating costs | 1,000,000 | 100% |
| (4) Unallocated | 5,000,000 | |
| | 50,000,000 | |
| TOTAL | ===== | |

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 Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental operating costs" means the costs, other than salaries related to the project management, including supplies, other consumables, support for dissemination of project related materials, postage, telephone and administrative expenses.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for:

(a) expenditures prior to the date of this Agreement; and

(b) payments made for expenditures in respect of Categories (1) (a) and 2 (a) on account of payments made for expenditures under Part A (5) of the Project until the Bank has received satisfactory evidence of the establishment by the Borrower of the Council for Occupational Standards and Assessment, referred to in Section 5 (b) of Part A of Schedule 2.

SCHEDULE 2

Description of the Project

The objectives of the Project are to restructure and improve pre-university (basic and secondary) education in accordance with the Borrower's strategy for the reform of its education sector.

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: Basic and Secondary Education

(1) Preparation, validation and implementation of curriculum programs for grades 1 through 12.

(2) Development and carrying out of a program to: (a) upgrade pre-service teacher training, including strengthening of training of primary school teachers in universities; (b) strengthen existing CPDs; and (c) introduce expanded utilization of computers in classrooms on a pilot basis.

(3) Establishment and operation of a National Board of Curriculum and Teacher Training, with an administrative secretariat, to be responsible for the development and carrying out of the programs under subparts (1) and (2) of this Part of the Project.

(4) Carrying out a program for: (a) the development, and application of national standards and performance criteria for basic and general secondary education; and (b) the establishment and operation of a National Assessment and Examination Board, a National Assessment and Examinations Service and four affiliated specialist assessment working groups to be responsible for the development and application of such standards and criteria.

(5) (a) Development and implementation of revised occupational standards and certification practices; and (b) establishment, equipping and staffing of a Council for Occupational Standards and Assessment, including a documentation and records center, to be responsible for the development and implementation of said standards and practices.

(6) Carrying out a program for: (a) the development, under competitively awarded contracts to publishers, of upgraded textbooks which meet the requirements of the new curriculum to be validated under subpart (1) of this Part and the printing and distribution to schools of the textbooks so developed under arrangement whereby schools receive budgetary ceilings calculated on a student per capita basis for the selection and purchase of such textbooks; and (b) establishment and operation of a Textbooks Approval Board, supported by a secretariat and about 12 textbook selection panels, to be responsible for supervising the development of textbooks.

(7) Provision of technical assistance, administrative support, training and equipment and materials to be utilized in the carrying out of this Part of the Project.

Part B: Education Financing and Management

(1) Development and implementation of an improved formula for budgetary allocation in pre-university education.

(2) Development of the capacity of school inspectorates and school administrative staff in financial management.

(3) Development and application of a school monitoring and performance improvement system.

(4) Designation and operation of regional resource centers at five of the existing CPDs to provide support to educators and other staff involved in the delivery of education.

(5) Carrying out of studies, local workshops and pilot trials to formulate and test policies for resource mobilization in education.

(6) Provision of technical assistance, training and equipment and materials to be utilized in carrying out this Part of the Project.

Part C:

(1) Development and implementation of policies and procedures designed to provide for the efficient planning and carrying out of Project activities, including through the establishment and maintenance of a Project

Coordination Unit and a Steering Committee to coordinate and supervise Project execution.

(2) Provision of technical assistance, office equipment and materials and vehicles to be utilized in the carrying out of this Part of the Project.

* * *

The Project is expected to be completed by September 30, 1999.

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in dollars)* |
|------------------|---|
| November 1, 1999 | 935,000 |
| May 1, 2000 | 970,000 |
| November 1, 2000 | 1,005,000 |
| May 1, 2001 | 1,045,000 |
| November 1, 2001 | 1,080,000 |
| May 1, 2002 | 1,120,000 |
| November 1, 2002 | 1,165,000 |
| May 1, 2003 | 1,205,000 |
| November 1, 2003 | 1,250,000 |
| May 1, 2004 | 1,300,000 |
| November 1, 2004 | 1,345,000 |
| May 1, 2005 | 1,395,000 |
| November 1, 2005 | 1,450,000 |
| May 1, 2006 | 1,500,000 |
| November 1, 2006 | 1,560,000 |
| May 1, 2007 | 1,615,000 |
| November 1, 2007 | 1,675,000 |
| May 1, 2008 | 1,740,000 |
| November 1, 2008 | 1,800,000 |
| May 1, 2009 | 1,870,000 |
| November 1, 2009 | 1,940,000 |
| May 1, 2010 | 2,010,000 |
| November 1, 2010 | 2,085,000 |
| May 1, 2011 | 2,165,000 |
| November 1, 2011 | 2,245,000 |
| May 1, 2012 | 2,325,000 |
| November 1, 2012 | 2,415,000 |
| May 1, 2013 | 2,505,000 |
| November 1, 2013 | 2,595,000 |
| May 1, 2014 | 2,690,000 |

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

| Time of Prepayment | Premium |
|---|--|
| | The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by: |
| Not more than three years before maturity | 0.15 |
| More than three years but not more than six years before maturity | 0.30 |

| | |
|--|------|
| More than six years but not more than 11 years before maturity | 0.55 |
| More than 11 years but not more than 16 years before maturity | 0.80 |
| More than 16 years but not more than 18 years before maturity | 0.90 |
| More than 18 years before maturity | 1.00 |

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$250,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A. (1) hereof, goods manufactured in Romania may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Items or groups of items estimated to cost the equivalent of \$250,000 or less per contract up to an aggregate amount of the equivalent of \$23,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Bank.

2. Items or groups of items estimated to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$700,000, may be procured under contracts awarded on the basis of comparison of three price quotations obtained from a list of qualified suppliers, acceptable to the Bank from at least three eligible source countries as defined under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Items or groups of items estimated to cost the equivalent of \$50,000 or

less per contract, up to an aggregate amount equivalent to \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three qualified suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

4. Contracts for goods which the Bank agrees are of proprietary nature, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$250,000 or more awarded in accordance with Section I, C, 4 of this Schedule, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded to consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultants' Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

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 contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank, to amendments of contracts raising the contract value to \$100,000 equivalent or above, and to 20 contracts for Part A (5) of the Project, selected for review by the Bank.

SCHEDULE 5

Implementation Program

1. Overall responsibility for the carrying out of the Project shall be assigned by the Borrower to MOE. For this purpose, the Borrower shall ensure that MOE: (a) shall carry out the project in accordance with the

requirements and other details set forth or referred to in the Project Operating Manual; (b) shall establish and maintain a Project Coordination Unit, with staff and other resources and terms of reference satisfactory to the Bank, to supervise the carrying out of the Project and the procurement of the goods and services therefor; and (c) shall maintain, under terms of reference satisfactory to the Bank, an education sector Steering Committee, comprising representatives of MOE's Technical Departments and reporting directly to the Borrower's Minister of Education, to coordinate the activities under the Project of MOE's Technical Departments and to provide policy guidance in the carrying out of the Project.

2. The Borrower shall: (a) employ or cause to be employed consultants, with qualifications and terms of reference and in accordance with a time schedule satisfactory to the Bank, to assist in the carrying out of the Project; (b) ensure that all such qualified management and staff in adequate numbers as agreed with the Bank shall be made available and thereafter maintained as required for the efficient carrying out of the Project and thereafter for sustaining the objectives thereof; and (c) ensure that the external and local training under the Project shall be carried out in accordance with programs and criteria for the selection of candidates thereunder satisfactory to the Bank.

3. In order to facilitate the achievement of the objectives of Part A (6) of the Project, the Borrower shall ensure that the development of upgraded textbooks thereunder shall not be contracted to any publishers which are beneficiaries of budgetary subsidies from the Borrower.

4. In order to facilitate the efficient carrying out of the Project in accordance with the provisions of Section 3.01 (a) of this Agreement and the criteria and guidelines set forth in the Project Operating Manual, the Borrower shall: (a) prepare and furnish to the Bank, by March 31 and September 1 of each year, a report, in form and substance satisfactory to the Bank, on the progress achieved in the carrying out of the Project during the six-month period preceding the date of such report, as measured pursuant to indicators agreed with the Bank, and the resources required and the measures recommended to provide for the continued efficient carrying out of the Project, and taking the Bank's views on the matter and based on the conclusions and recommendations of such report, take all the measures, including allocation of resources, required to ensure such efficient carrying out of the Project; and (b) review with and prepare, pursuant to terms of reference agreed with the Bank, and furnish to the Bank, in November 1996, a report integrating available data on the progress in achieving the objectives of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the achievement of the objectives of the Project for the period following said report, and, thereafter, take all measures which, in the opinion of the Bank, are required to achieve said objectives.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special

Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further

payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

