

CONFORMED COPY

LOAN NUMBER 3313 HU

(Human Resources Development Project)

between

REPUBLIC OF HUNGARY

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated April 29, 1991

LOAN NUMBER 3313 HU

LOAN AGREEMENT

AGREEMENT, dated April 29, 1991, between REPUBLIC OF HUNGARY (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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the term "Special Account" means the account referred to in Section 2.02 (b) 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, various currencies that shall have an aggregate value equivalent to the amount of one hundred fifty million dollars (\$150,000,000), 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 (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in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 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 the National Bank of Hungary on terms and conditions satisfactory to the Bank. 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 June 30, 1996, 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 June 15 and December 15 in each year.

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

Section 2.08. The President of the National Bank of Hungary, or such other person or persons as said President shall designate in writing, are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### 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, financial, economic and human resources development 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: (i) carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement; and (ii) employ consultants with qualifications, experience and terms of reference satisfactory to the Bank, to assist the Borrower in the carrying out of the Project.

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

## ARTICLE IV

### 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

### Termination

Section 5.01. 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 VI

### Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.08 of this Agreement, the First Deputy President or the General Manager of the National Bank of Hungary 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:

National Bank of Hungary  
Department for International  
Development Institutions  
H-1850 Budapest  
Szabadsag ter 8-9  
Republic of Hungary

Cable address:

BANKO  
Budapest

Telex:

227267 SMAFU-H,  
225755 BANKO-H or  
227028 BANKO-H

For the Bank:

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

INTBAFRAD  
Washington, D.C.

Telex:

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

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.

REPUBLIC OF HUNGARY

By /s/ Imre Tarafas  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

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

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods:		100% of foreign expenditures and
(a) for Part A (2) of the Project	18,500,000	100% of local expenditures (ex-factory cost)
(b) for the other Parts of the Project	79,300,000	
(2) Consultants' services	12,500,000	100%
(3) Fellowships and research grants	21,000,000	100% of foreign expenditures
(4) Unallocated	18,700,000	
	<hr/>	
TOTAL	150,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(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.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$5,000,000, may be made on account of payments made for expenditures before that date but after November 1, 1990; and

(b) expenditures for Part A (2) of the Project to be financed out of the proceeds of the Loan allocated from time to time to Category (1) (a) except after the Bank shall have communicated to the Borrower its acceptance of evidence that: (i) the budget of the national training council, referred to in Part A (2) of the Project, for the fiscal year ending December 31, 1991, has been adopted; and (ii) operational guidelines for the regional training boards referred to in Part A (2) of the Project have been adopted and at least four of said regional training boards have been established and staffed, and the proposed programs and budgets of said regional training boards for the fiscal year ending December 31, 1991 have been adopted.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to assist in the carrying out of programs further to develop the Borrower's human resources base as will contribute to improved productivity and technological competitiveness of its economy and to alleviation of the adverse employment impact of the restructuring thereof.

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: Employment and Labor Training

Development and implementation of programs to:

(1) upgrade and expand the labor market information systems and employment assistance services;

(2) restructure the specialized occupational training services for adults, including the maintenance of a national training council and the establishment of regional training boards which will develop and operate regional labor development centers with effective linkages to regional economies and labor markets; and

(3) reform the vocational secondary schools system, including the development and operation of model vocational secondary schools combining training in broad clusters of occupational skills with general education.

Part B: Higher Education and Research

Development and implementation of programs to:

(1) upgrade and expand higher education, including the establishment of a higher education development fund to provide competitively based grant funding to universities to carry out schemes to promote greater collaboration and resource sharing among universities, develop interdisciplinary educational programs and integrate research and teaching functions through expanded collaboration among universities and research institutes, and improve the recovery of costs of the provision of higher education;

(2) develop a framework for the financing, through the higher education development fund referred to under subpart (1) hereof, of university programs for foreign language training, and carry out practically oriented foreign language training; and

(3) increase and upgrade human resources available for science and technology research and restructure and expand the science and technology research system, including the establishment of an autonomous foundation for basic sciences to provide competitively based grant funding (a) to upgrade and expand the scientific instrument centers and the scientific research and development information infrastructure network used by scientific researchers, and (b) to support research by qualified young scientists.

\* \* \*

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 15 and December 15	
beginning December 15, 1996 through June 15, 2006	7,500,000

\* The figure in this column represents the dollar equivalent determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the

premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods

###### Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

###### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in the territory of the Borrower 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. Goods, including technical licenses, estimated to cost the equivalent of \$300,000 or less per contract, up to an aggregate amount equivalent to \$30,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

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

###### Part D: Review by the Bank of Procurement Decisions

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

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

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

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

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

## Section II. Employment of Consultants

Consultants' services shall be procured under contracts awarded to Consultants: (A) 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.

### SCHEDULE 5

#### Implementation Program

##### A. Part A of the Project

###### 1. The Borrower shall:

(a) carry out Parts A (1) and A (3) of the Project through its Ministry of Labor, with the assistance of the Borrower's Central Statistical Office and Ministry of Culture and Education, respectively, and to that end shall ensure that said Ministry is at all times provided with staffing and other resources so as to enable said Ministry properly to carry out its responsibilities under the Project; and

(b) monitor the labor market at least once every quarter of each fiscal year utilizing the market information systems referred to in Part A (1) of the Project.

2. In order to ensure the proper operation of the national training council and the regional training boards referred to in Part A (2) of the Project, the Borrower shall take all necessary measures to ensure the maintenance by said council and boards of operational guidelines and procedures pursuant to which the said council shall:

(a) prepare and furnish to the Bank for its review and comments, through the Borrower's Ministry of Labor, not later than November 30 of each fiscal year, its proposed budget and the proposed programs of activities of said boards for the following fiscal year; and

(b) thereafter, ensure the finalization of said budget and programs taking into consideration the Bank's comments thereon.

B. Part B of the Project

1. In order to achieve the objectives of Part B of the Project, the Borrower shall ensure the preparation, on the basis of guidelines satisfactory to the Bank, and submission, by December 31, 1991, to the Borrower's Parliament for enactment of draft laws providing for: (a) the autonomy of the Hungarian Academy of Sciences; (b) the autonomy and normative financing of universities and colleges; and (c) the introduction of a suitable system for the training of scientists and the awarding of scientific degrees.

2. The Borrower shall ensure that all grants provided by the higher education development fund referred to in Parts B (1) and B (2) of the Project and the grants provided by the autonomous foundation for basic sciences referred to in Part B (3) of the Project shall be awarded on the basis of guidelines satisfactory to the Bank.

3. The Borrower shall: (a) prepare under terms of reference satisfactory to the Bank and furnish to the Bank for its review and comments, by June 30, 1992, a feasibility study for improving the recovery of costs of the provision of higher education, together with the recommendations of the Borrower based thereon, and (b) thereafter, take all measures required on its part to ensure that the improvement of such recovery of costs under Part B (1) of the Project shall be carried out on the basis of said recommendations, taking into consideration the Bank's comments thereon.

C. Review of Project Execution

The Borrower shall: (a) prepare and furnish to the Bank for its review and comments, in November 1993, a report integrating available data on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the proper carrying out of the Project during the period following such date; and (b) thereafter, take all measures required on its part to ensure the proper carrying out of the Project during such period, taking into consideration the Bank's comments thereon.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 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.

