

CONFORMED COPY

LOAN NUMBER 3636 SLO

Loan Agreement

(Enterprise and Financial Sector Adjustment Loan)

between

REPUBLIC OF SLOVENIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 16, 1993

LOAN NUMBER 3636 SLO

LOAN AGREEMENT

AGREEMENT, dated August 16, 1993 between REPUBLIC OF SLOVENIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated June 17, 1993 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy and reform of the Borrower's enterprise and financial sectors (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports and technical assistance services required during such execution; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) Section 2.01, paragraph 11, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Loan pursuant to the provisions of Schedule 1 to the Loan Agreement.";

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

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

(c) The last sentence of Section 3.02 is deleted; and

(d) 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986);

(b) "BOS" means the Bank of Slovenia, the Central Bank of the Borrower;

(c) "Banks under Rehabilitation" means Ljubljanska Banka, D.D., Ljubljana; Kreditna banka Maribor, D.D., Maribor; and Komercialna Banka Nova Gorica, D.D.;

(d) "tolar" means the currency of the Borrower; and

(e) "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 eighty million dollars (\$80,000,000), 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.

(b) The Borrower shall, for the purposes of the Program, open and maintain in a freely convertible currency a special deposit

account in a commercial bank or its Central 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 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1995 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 February 15 and August 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

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 4 to this Agreement.

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

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and services to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower shall:

(a) carry out under terms of reference satisfactory to the Bank such studies, programs and training activities which, in the opinion of the Borrower and the Bank, are required for the successful and timely execution of the Program;

(b) upon the completion of each of such studies, programs and activities, furnish to the Bank a report (of such scope and detail as the Bank shall reasonably request) on their results and allow the Bank a reasonable opportunity to comment thereon; and

(c) ensure the availability, as needed, of the funds, facilities, services and other resources required for the carrying out of the studies, activities and programs referred to in this Section.

Section 3.04. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(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, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(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 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 audits 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 IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. The date 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
Zupanaiaeva 3
Ljubljana
Republic of Slovenia

Telex:

86231284

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:

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

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 SLOVENIA

By /s/ G. Zore

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ K. Dervis

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Loan may be withdrawn from the Loan Account for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services to be financed out of such proceeds, in accordance with the allocation of the Loan to the following Categories:

| Category | Amount of the Loan Allocated (Expressed in Dollar Equivalent) | % of Expenditures to be Financed |
|--|--|--|
| (1) Goods and related services | 75,000,000 | 100% of foreign expenditures |
| (2) Consultants' services and training | 5,000,000 | 100% |
| TOTAL | 80,000,000 ===== | |

2. For the purpose of this Schedule, the term "foreign expenditures" means the 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.

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

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

| Group | Sub-group | Description of Items |
|--------|-----------|---|
| 112 | - | Alcoholic beverages |
| 121 | - | Tobacco, unmanufactured, tobacco refuse |
| 122 | - | Tobacco, manufactured (whether or not containing tobacco substitutes) |
| 525 | - | Radioactive and associated materials |
| 667 | - | Pearls, precious and semi-precious stones, unworked or worked |
| 718 | 718.7 | Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors |
| 728.43 | - | Tobacco processing machinery |
| 897 | 897.3 | Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems) |
| 971 | - | Gold, non-monetary (excluding gold ores and concentrates) |

(b) payments made for expenditures prior to the date of this Agreement, except that (i) withdrawals in an aggregate amount not exceeding the equivalent of \$15,000,000 may be made on account of payments made for expenditures under Category (1) before that date but after April 1, 1993, and (ii) withdrawals in an aggregate amount not exceeding the equivalent of \$500,000 may be made on account of payments made for expenditures under Category (2) before that date but after April 1, 1993;

(c) expenditures for goods procured under contracts costing less than \$10,000 equivalent;

(d) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance; and

(e) expenditures for goods intended for a military or para-military purpose or for luxury consumption.

4. Withdrawals for expenditures under contracts for the procurement of goods estimated to cost less than \$5,000,000 may be permitted by the Bank upon the basis of statements of expenditure under such terms and conditions as the Bank shall specify.

5. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Loan after

the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of \$35,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (a) with the progress achieved by the Borrower in the carrying out of the Program, and (b) that the actions described in Schedule 4 to this Agreement have been taken.

6. If, after the exchange of views described in paragraph 5 above, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

SCHEDULE 2

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in dollars)* |
|--|---|
| On each February 15 and August 15 | |
| beginning February 15, 1999 through August 15, 2008 | 4,000,000 |

* The figure in this column represents 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 | 0.20 |
| More than three years but not more than six years before maturity | 0.40 |
| More than six years but | 0.73 |

| | |
|---|------|
| not more than eleven years before maturity | |
| More than eleven years but not more than thirteen years before maturity | 0.87 |
| More than thirteen years before maturity | 1.00 |

SCHEDULE 3

Procurement

Section I. Procurement of Goods

1. Contracts for the procurement of goods estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding 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), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Business; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. 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.

3. In the procurement of goods in accordance with paragraph 1 of this Section I, 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 Program. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other international recognized standard forms agreed with the Bank.

4. Goods of a proprietary nature may be purchased from suppliers on the basis of negotiated contracts pursuant to procedures acceptable to the Bank.

5. Contracts for the procurement of goods estimated to cost the equivalent of less than \$5,000,000 each 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.

6. Subject to the prior approval of the Bank, commonly traded commodities may be procured through organized international commodity markets or other channels of competitive procurement acceptable to the Bank, in accordance with procedures acceptable to the Bank. 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 Program. 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.

7. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request. Where payments under a contract are to be made out of the proceeds of the Special Account, such copies together with the other information required to be furnished to the Bank pursuant to this paragraph shall be furnished to the Bank as part of the evidence required under paragraph 4 of Schedule 5 to this Agreement.

8. With respect to each contract referred to in paragraphs 5 and 6 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract. Where payments under a contract are to be made out of the proceeds of the Special Account, the documentation and the information to be furnished to the Bank pursuant to the provisions of this paragraph shall be furnished to the Bank as part of the evidence required under paragraph 4 of Schedule 5 to this Agreement.

9. The provisions of the preceding paragraph 8 of this Schedule shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the technical assistance referred to in Section 3.03 of this Agreement, the Borrower shall employ management, banking, legal and economic 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. 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 and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 4

Actions Referred to in Paragraph 5 (b) of Schedule 1 to this Agreement

A. Macroeconomic Reform

1. Macroeconomic Performance

Continued maintenance of the macroeconomic framework consistent with the objectives of the Program as determined on the basis of indicators acceptable to the Borrower and the Bank.

2. Adoption of Fiscal Policies

Adoption by the Borrower of the 1994 budget limiting the general budget deficit to not more than 2% of Gross Domestic Product (GDP), providing overall support to the reforms of about 5.4% of GDP, and containing minimum support to the key reform activities, including bank restructuring at about 2.3% of GDP, enterprise restructuring at about 0.9% of GDP and social safety net at about 2.2% of GDP, and adoption by the Borrower of the 1994 budget reducing general expenditures and revenues by not less than 1% of GDP.

3. Pension Reform

Adoption by the Borrower of measures to limit pension expenditures to not more than 12.5% of GDP in 1994, and submission to the Parliament of revised pension legislation.

4. Income Policies

Continued implementation of the wage policy in accordance with criteria acceptable to the Borrower and the Bank.

B. Enterprise Sector

1. Privatization and Restructuring

Carrying out of the privatization of about 400 socially-owned enterprises accounting for about 20% of the value-added contribution of all enterprises subject to the Law on Ownership Transformation and regulations thereunder.

2. Reform of State-Owned Enterprises

(a) Conversion of all socially-owned enterprises in the commercial public service subsectors, designated by the Borrower, into state-owned enterprises in accordance with the Law on Commercial Public Services and regulations thereunder.

(b) Establishment of a governance structure for all state-owned enterprises in accordance with the Companies Law.

(c) Submission to the Parliament of draft legislation to govern the organization and regulatory framework of the energy, telecommunications and railway subsectors and to specify the activities of said subsectors to be privatized in the medium-term.

3. Program for Loss-Making Enterprises

Implementation of the Borrower's medium-term restructuring program for the steel subsector; implementation of the Borrower's price adjustment program for the electric power subsector; finalization of the Borrower's restructuring program for the railway subsector; and achievement of satisfactory progress in the reduction of losses and in the implementation of the reforms in said subsectors.

C. Banking Sector Reform

1. Bank Restructuring Program

(a) Bank Rehabilitation

Satisfactory progress in the implementation of bank rehabilitation, including achievement by the Banks under Rehabilitation of a capital asset ratio (CAR) of not less than 4% and a positive operating cash flow; satisfactory progress by said Banks in the implementation of institutional development programs; and restructuring of the banking system in a manner that ensures that individual banks do not hold more than 40% of the total deposits of the system.

(b) Institutional Arrangements

Adoption of new legislation or amendments to existing legislation governing the Bank Rehabilitation Agency (BRA) reflecting its expanded role and responsibilities; implementation by the BRA of a program for its operations, including multi-year financial requirements to support bank rehabilitation; appointment by the BRA of a board of directors for each bank under rehabilitation; and approval by each Bank under rehabilitation of performance indicators and targets for its recovery.

(c) Foreign Currency Deposits

Based on a review of the Borrower's program for foreign currency deposits, revision if necessary of said program to strengthen bank rehabilitation.

2. Debt Recovery

(a) Classified Debts

Restructuring of at least one-third of the debtor enterprises and one-third of the debts transferred from the accounts of the Banks under Rehabilitation to the accounts of the BRA.

(b) Guidelines for Debt Recovery

Implementation of the guidelines of the BRA for debt recovery and of the regulations of the BOS for adversely classified borrowers.

3. Legal and Regulatory Framework

(a) Laws and Regulations

Enactment by the Parliament of amendments to the Banking Law and the Bank Rehabilitation Law in a manner agreed with the Bank, and adoption by BOS of revisions to its regulations consistent with said amendments.

(b) Bank Supervision

Progress in implementing the plan adopted by BOS to strengthen bank supervisory capabilities as determined in accordance with agreed guidelines.

(c) Bank Privatization

Adoption of a privatization strategy for the Banks under Rehabilitation in accordance with guidelines acceptable to the Borrower and the Bank.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of consultants' services and training required during the execution of the Program and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Loan Account and deposited into 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 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, 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 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.

[Redacted]