

CONFORMED COPY

LOAN NUMBER 3343 POL

(Agricultural Development Project)

between

REPUBLIC OF POLAND

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated July 10, 1991

LOAN NUMBER 3343 POL

LOAN AGREEMENT

AGREEMENT, dated July 10, 1991, between REPUBLIC OF POLAND (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) 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;

(B) Part B of the Project will be carried out by the National Bank of Poland (NBP) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to NBP the proceeds of the Loan as provided in this Agreement;

(C) the Borrower intends to contract from other sources of finance (the Cofinanciers) loans and grants in an aggregate amount equivalent to forty million dollars (\$40,000,000) to assist in financing the Project on terms and conditions set forth in agreements (Cofinancing Agreements) to be entered into between the

Borrower and the Cofinanciers; 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 and in the Project Agreement of even date herewith between the Bank and NBP;

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

(a) "Project Agreement" means the agreement between the Bank and NBP of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and NBP pursuant to paragraph 1 of Part B of Schedule 4 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement, and "Subsidiary Loan" means the loan to be provided under the Subsidiary Loan Agreement;

(c) "Act" means the Act dated January 31, 1989 of the Borrower's Council of State, on the National Bank of Poland, as amended to the date of this Agreement;

(d) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(e) "Zlotys" means Zlotys in the currency of the Borrower;

(f) "Subsidiary Lending Agreement" means any agreement to be entered into between NBP and a Participating Bank pursuant to paragraph B (1) of the Schedule to the Project Agreement, and "Subsidiary Lending" means any loan made pursuant to a Subsidiary Lending Agreement;

(g) "Participating Bank" means a banking institution with which NBP has entered into a Subsidiary Lending Agreement;

(h) "Subsidiary Financing Agreement" means any agreement to be entered into between a Participating Bank and a Participating Cooperative Bank pursuant to paragraph 4 (a) of Part B of the Annex to the Schedule to the Project Agreement, and "Subsidiary Finance" means any loan made pursuant to a Subsidiary Financing Agreement;

(i) "Participating Cooperative Bank" means any local cooperative bank with which a Participating Bank has entered into a Subsidiary Financing Agreement;

(j) "Sub-loan" means a loan made or proposed to be made out of the equivalent of the proceeds of the Loan by a Participating Bank or a Participating Cooperative Bank to a Beneficiary for a Sub-project;

(k) "Beneficiary" means an individual entrepreneur, a rural cooperative or an enterprise to which a Participating Bank or Participating Cooperative Bank proposes to make or has made a Sub-loan; and

(l) "Sub-project" means a specific development project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan.

## 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 million dollars (\$100,000,000), 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 amounts paid (or, if the Bank shall so agree, to be paid) by NBP on account of withdrawals made by a Beneficiary under a Sub-loan to meet the reasonable cost of goods and services required for the Sub-project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower shall, for the purposes of Part B of the Project, open and maintain in Dollars a special deposit account in NBP 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 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 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 June 1 and December 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 or cause to be carried out the Project with due diligence and efficiency and in conformity with appropriate administrative, technical and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(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 or cause to be carried out the Project in accordance with the Implementation Program set forth in 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 Accounts 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

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) NBP shall have failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that NBP will be able to perform its obligations under the Project Agreement.
- (c) The Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of NBP to perform any of its obligations under the Project Agreement.
- (d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of NBP or for the suspension of its operations.
- (e) Cofinancing Agreements, other than those referred to in

Section 6.01 (a) of this Agreement, providing for loans and grants in an aggregate amount equivalent to twenty million dollars (\$20,000,000) shall have failed to become effective by October 31, 1992, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

- (f) (i) Subject to subparagraph (ii) of this paragraph:
  - (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
  - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:
  - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
  - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower and NBP;

(b) any event specified in paragraphs (c) or (d) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (ii) of that Section.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and NBP;

(b) all conditions precedent to the effectiveness of Cofinancing Agreements, providing for loans and grants in an aggregate amount equivalent to twenty million dollars (\$20,000,000), have been fulfilled, other than those related to the effectiveness of this Agreement;

(c) the national cooperative development unit referred to in Part A (1) of the Project has been established in accordance with the provisions of paragraph 2 of Part A of Schedule 4 to this

Agreement;

(d) the capital fund referred to in Part A (3) of the Project has been established in accordance with the provisions of paragraph 5 of Part A of Schedule 4 to this Agreement; and

(e) at least one Subsidiary Lending Agreement has been entered into on behalf of NBP and a Participating Bank.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by NBP, and is legally binding upon NBP in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and NBP and is legally binding upon the Borrower and NBP in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
00-916 Warszawa  
ul. Swietokrzyska 12  
Republic of Poland

Cable address:

MINF  
Poland

Telex:

814386 PL

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 POLAND

By /s/ Jacek Tomorowicz  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kemal Dervis  
Acting Regional Vice President  
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The proceeds of the Loan may be withdrawn to finance 80% of the withdrawals made by each Beneficiary under its respective Sub-loan.
2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in promoting rural development within the Borrower's territory through the financing of productive facilities and resources in rural areas, strengthening of the cooperative banking system and restructuring of priority agricultural cooperative subsectors.

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: The Borrower

(1) (a) The establishment and operation of a national cooperative development unit, supported by regional cooperative service units, to be responsible for: (i) (A) the design and carrying out of a program of management and staff training and professional advice to assist rural cooperatives, including marketing, dairy and horticulture cooperatives, in strengthening their organization, management and operations and in facilitating their restructuring into member-controlled, market-oriented cooperatives, and (B) the provision of basic training and professional advice to local cooperative banks in cooperative organization and practices; and (ii) the review of the existing regulatory framework applicable to rural cooperatives in order to identify the measures required to ensure that such framework will be responsive to the special requirements of the rural cooperative system and its developmental potential; and (b) the provision of office space, office equipment and furniture, vehicles, staff and staff training and experts' services required for the carrying out of this subpart of the Project.

(2) (a) The design and carrying out of: (i) a program of management and staff training and professional advice to assist local and regional cooperative banks in strengthening their management and operations, including the development and application of suitable policies for the management of resources and appropriate lending policies and procedures, and (ii) a review of the existing regulatory framework applicable to the cooperative banking system in order to identify the measures required to ensure that such framework will be responsive to the special requirements of the cooperative banking system and its developmental potential; and (b) the provision of office space and equipment, vehicles, staff and experts' services required for the carrying out of this subpart of the Project.



(3) The establishment and operation of a capital fund to assist local cooperative banks in the establishment and capitalization of regional cooperative banks.

(4) The carrying out of a study to determine the nature of and demand for credit in rural areas.

Part B: NBP

(1) The establishment and operation of a credit facility designed to contribute to the economic and social development of rural areas through the financing of specific development projects within these areas.

(2) The development and implementation of a monitoring system for the collection and dissemination of information on preferential credit for the food economy.

\* \* \*

The Project is expected to be completed by December 31, 1994.

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 1 and December 1 beginning December 1, 1996 through December 1, 2007	4,165,000
On June 1, 2008	4,205,000

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\* 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	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years	0.88

before maturity

More than 15 years before maturity 1.00

SCHEDULE 4  
Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement.

A. Part A of the Project

1. The Borrower shall carry out Part A of the Project through its Ministry of Agriculture and Food Economy and shall employ consultants with qualifications, experience and terms of reference satisfactory to the Bank, in order to assist in the carrying out of the said Part A.

2. The Borrower shall: (a) establish and maintain the cooperative development unit and its regional cooperative service units referred to in Part A (1) of the Project under terms of reference satisfactory to the Bank; (b) provide said units with all needed facilities and resources to enable them efficiently to carry out their functions, including the carrying out of the program and review referred to in said Part A (1); and (c) ensure the appointment, with qualification, experience and terms of reference satisfactory to the Bank, (i) by December 31, 1991, of the Executive Director of the said cooperative development unit and of a cooperative management adviser, cooperative training adviser and a cooperative development adviser to assist said Executive Director and (ii) promptly as needed, of such adequate number of specialists as agreed with the Bank, to support said cooperative development unit and its regional cooperative service units in the performance of their activities under Part A (1) of the Project.

3. The Borrower shall maintain suitable arrangements with a national organization of regional cooperative banks, acceptable to the Bank, pursuant to which said organization shall assist the Borrower in the coordination and supervision of the carrying out of the program and review referred to in Part A (2) of the Project.

4. The Borrower shall prepare, taking into consideration the conclusions and recommendations of the review referred to in Part A (1) of the Project, and submit, by June 30, 1992, to its Parliament (Sejm) a draft cooperative law which the Bank agrees is responsive to the special requirements of the rural cooperative system and its developmental potential.

5. The Borrower shall establish and operate the capital fund (the Capital Fund) under Part A (3) of the Project through NBP under arrangements satisfactory to the Bank and in accordance with the guidelines referred to in subparagraph (b) of this paragraph. The initial amount of the Capital Fund at the time it is established shall not be less than the equivalent of \$10,000,000, and the Borrower undertakes to increase such amount at least by the equivalent of \$10,000,000 by the time 90% of the initial amount of the Capital Fund shall have been utilized pursuant to subparagraph (a) hereof. In order to provide for the proper operation of the Capital Fund, the Borrower shall: (a) ensure that the resources of the Capital Fund shall be utilized (i) initially to purchase long-term bonds issued by local cooperative banks with the proceeds thereof being utilized by said banks in the establishment and capitalization of regional cooperative banks, and (ii) subsequently to grant loans to regional cooperative banks to assist them in strengthening their banking facilities and operations; and (b) maintain a managing committee with membership, resources and terms of reference satisfactory to the Bank to develop and supervise the application by NBP of policies and procedures for the operation of the Capital Fund and the utilization of its resources, including criteria for the selection of cooperative banks eligible to participate in the utilization of such resources and the terms and conditions applicable to such utilization.

6. The Borrower shall: (a) consult with NBP and representatives of commercial and other banks in the carrying out of the study under Part A (4) of the Project; and (b) employ consultants with qualifications, experience and terms of reference satisfactory to the Bank to assist the Borrower in the carrying out of the said study.

B. Part B of the Project

1. The Borrower shall relend the proceeds of the Loan to NBP under a subsidiary loan agreement to be entered into between the Borrower and NBP under terms and conditions which shall have been approved by the Bank and which shall include those set forth in the Annex to this Schedule.

2. The Borrower shall: (a) cause NBP to perform in accordance with the provisions of the Project Agreement all the obligations of NBP therein set forth, take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable NBP to perform such obligations, and not take or permit to be taken any action which would prevent or interfere with such performance; and (b) exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Bank and the Borrower and to accomplish the purpose of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

3. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part B of the Project shall be carried out by NBP pursuant to paragraph A.2 of the Schedule to the Project Agreement.

ANNEX TO SCHEDULE 4

Terms and Conditions of the  
Subsidiary Loan Agreement

The provisions of this Annex shall apply for the purposes of paragraph 1 of Part B of Schedule 4 to this Agreement.

(1) The principal amount of the Subsidiary Loan shall be:

(a) the equivalent of the aggregate amount of the principal of all Sub-loans made out of the proceeds thereof through the Participating Banks and the Participating Cooperative Banks; and

(b) denominated in dollars and Zlotys, with the portion thereof denominated in dollars being the sum total of the Sub-loans made out of its proceeds and denominated in dollars, and with the portion thereof denominated in Zlotys being the sum total of the Sub-loans made out of its proceeds and denominated in Zlotys.

(2) The portion of the Subsidiary Loan denominated in:

(a) dollars shall be charged, on the principal amount thereof withdrawn and outstanding from time to time, interest during each six-month period commencing on January 1 and July 1 of each calendar year at a rate equal to LIBOR plus a margin, as shall be calculated by the Borrower on the basis of guidelines acceptable to the Bank; and

(b) Zlotys shall be charged, on the principal amount thereof withdrawn and outstanding from time to time, interest at the same rate charged from time to time by NBP on similar loans denominated in Zlotys and made out of its own resources in accordance with its applicable policies, minus a margin, as shall be determined by the Borrower on the basis of guidelines acceptable to the Bank.

(3) The Subsidiary Loan shall be repaid to the Borrower over a period of 17 years, inclusive of a grace period of five years.

#### 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 goods required for Sub-projects 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 \$10,000,000 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 Part A (1) of 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.

