

CONFORMED COPY

LOAN NUMBER 2936 HU

(Agroprocessing Modernization Project)

between

HUNGARIAN PEOPLE'S REPUBLIC

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 2, 1988

LOAN NUMBER 2936 HU

GUARANTEE AGREEMENT

AGREEMENT, dated June 2, 1988, between HUNGARIAN PEOPLE'S REPUBLIC (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and the National Bank of Hungary (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project;

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to seventy million dollars (\$70,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan and to undertake such other obligations as provided in this Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

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 Loan Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Guarantee; Provision of Funds

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

ARTICLE III

Execution of Part A of the Project

Section 3.01. The Guarantor shall carry out and cause to be carried out Part A of the Project with due diligence and efficiency and in conformity with appropriate practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.02. In order to assist the Guarantor in carrying out Part A of the Project, the Guarantor shall employ consultants with qualifications, experience and terms of reference satisfactory to the Bank.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 3.04. The Guarantor shall:

(a) furnish to the Bank a copy of each of the studies to be carried out under Parts A (4)(b), A (5)(a) and A (5)(b) of the Project upon its completion;

(b) afford the Bank a reasonable opportunity to exchange

views with the Guarantor and to comment on the conclusions and recommendations thereof; and

(c) within a period not exceeding six months of such exchange of views, develop and thereafter carry out a plan of actions, to achieve the objectives of such study, taking into consideration the conclusions and recommendations thereof and the Bank's comments thereon.

Section 3.05. The Guarantor shall, by December 31, 1988:

(a) develop, under terms of reference satisfactory to the Bank, and initiate the carrying out of, the export trade promotion and marketing program referred to under Part A (1) of the Project; and

(b) cause to be established, and thereafter maintained, under the auspices of its Ministry of Trade, a separate export trade promotion and marketing office, under terms of reference satisfactory to the Bank and with adequate staff and other resources, to coordinate and supervise the carrying out of the said program.

Section 3.06. The Guarantor shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, the Guarantor shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 3.07. (a) The Guarantor shall exchange views with the Bank or the Borrower, as may be reasonably requested by the Bank or the Borrower, with regard to progress of Part A of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of Part A of the Project.

(b) The Guarantor shall promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes thereof or the performance by the Guarantor of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 3.08. The Guarantor shall carry out the obligations set forth in Sections 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 and maintenance, respectively) in respect of Part A of the Project.

ARTICLE IV

Other Covenants

Section 4.01. (a) The Guarantor 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 Part A of the Project of the departments, agencies and institutes of the Guarantor responsible for the carrying out thereof.

(b) The Guarantor shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section 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 five months after the end of each such year: (A) certified copies of said

accounts for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. In order to: (a) facilitate the carrying out of Part A of the Project; and (b) assist (i) the Borrower in carrying out the task referred to in Section 3.01 (d) (ii) of the Loan Agreement, and (ii) the Participating Banks in carrying out the tasks referred to in paragraph 4 (b) of Part B of Schedule 6 to this Agreement, the Guarantor shall maintain the Project Unit with composition, resources and terms of reference, satisfactory to the Bank.

Section 4.03. In order to facilitate the achievement of the objectives of the Project, the Guarantor shall take all necessary action on its part to ensure that the research and development work of the University of Horticulture and Food Industries in support of the agroprocessing industry is at all times responsive to the needs of said industry, and, for this purpose, a consultative group composed of suitable representatives of the agroprocessing industry, the Guarantor's Ministry of Agriculture and Food and the Guarantor's Ministry of Trade shall be established, by December 31, 1988, and thereafter maintained, with terms of reference satisfactory to the Bank, to determine the priorities in such research and development work of the said University.

ARTICLE V

Representatives of the Guarantor; Addresses

Section 5.01. The Deputy Chairman of the Guarantor's National Planning Office, the Deputy Minister of Trade of the Guarantor's Ministry of Trade or the Managing Director of the Borrower is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

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

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

Telex:

440098 (ITT),

Washington, D.C.

248423 (RCA) or
64145 (WUI)

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.

HUNGARIAN PEOPLE'S REPUBLIC

By /s/ Andras Patko
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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

