

CONFORMED COPY

LOAN NUMBER 7064-LE

Loan Agreement

(Community Development Project)

between

LEBANESE REPUBLIC

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 10, 2001

LOAN NUMBER 7064-LE

LOAN AGREEMENT

AGREEMENT, dated September 10, 2001, between LEBANESE REPUBLIC (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 (the Project), has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by the Council for Development and Reconstruction (CDR) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to CDR on a grant basis, as set forth in this Agreement; 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 agreement of even date herewith between the Bank and CDR (the Project 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 for Fixed-Spread Loans" of the Bank dated September 1, 1999 (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "CDR" means the Borrower's Council for Development and Reconstruction, a public authority established and operating pursuant to the Legislative Decree No. 5, dated January 31, 1977 and Law No. 295 dated April 3, 2001, as the same may be amended from time to time;

(b) "Eligible Categories" means categories (1) and (2); set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(d) "Operations Manual" means the Operations Manual including the annexes thereto, to be prepared in accordance with the provisions of Section 6.01 (d) of this Agreement, setting forth the procedures, eligibility, appraisal, targeting and allocation criteria and guidelines for identifying Subprojects (as hereinafter defined), planning, monitoring and supervising their implementation, as well as applying the necessary environmental requirements and procedures described in the environmental guidelines for the environmental screening, design, implementation and monitoring of the mitigating measures of these Subprojects (as hereinafter defined), as such Manual may be revised from time to time in agreement with the Bank;

(e) "Project Agreement" means the agreement between the Bank and CDR 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;

(f) "Project Coordinator" means the CDR project officer, referred to in Schedule 2 to the Project Agreement;

(g) "PIP" means the Project Implementation Plan which includes the detailed implementation and procurement arrangements for the Project, to be prepared in accordance with the provisions of Section 6.01 (c) of this Agreement;

(h) "PI" or "PIs" means the Project Intermediaries which are the selected non governmental organizations to be in charge of designing and implementing a program of Subprojects (as hereinafter defined), to be carried out under the Project pursuant to the provisions of Schedule 2 to the Project Agreement;

(i) "PMT" means the Project Management Team to be established with professional staff of a non governmental organization or a consulting firm or a joint venture thereof, to be appointed by and operating within CDR, in accordance with the provisions of Section 6.01 (b) of this Agreement;

(j) "Project Management Report" means each report prepared in accordance with Section 4.02 of the Project Agreement;

(k) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(l) "Subproject" means any activity to develop the physical or social infrastructure of communities or to render other services to these communities, to be financed under the Project and approved by CDR pursuant to the provisions of Schedule 2 to the Project Agreement and in accordance with the procedures, terms and conditions set forth in the Operations Manual;

(m) "Subproject Agreements" means the agreements to be entered into between the CDR and PIs setting forth the tasks and responsibilities of the parties, including the stakeholders' contributions, and commitments in connection thereto, to implement a program of Subprojects, as such agreement shall be amended from time to time in agreement with the Bank, and such term includes all schedules to the Subproject Agreement;

(n) "Subproject Grants" means a grant made or proposed to be made by CDR to PIs for the design, management and implementation of any Subproject that meets the

eligibility criteria pursuant to the Operations Manual and in accordance with the provisions of this Agreement and the Project Agreement; and

(o) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and CDR pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to CDR.

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 this Agreement, an amount equal to twenty million United States dollars (US\$20,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan; (ii) amounts paid (or if the Bank shall so agree, amounts to be paid) by CDR on account of withdrawals made for the benefit of a PI under a Subproject Grant to meet the reasonable cost of goods, works or services required for such Subproject and in respect of which withdrawal from the Loan Account is requested; and (iii) in respect of interest and other charges in respect of the Loan, the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be December 31, 2006 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 front-end fee in an amount equal to one per cent (1%) of the amount of the Loan. The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on November 15 and May 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and

(iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. CDR is designated as representative 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, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause CDR to perform in accordance with the provisions of the Project Agreement all the obligations of CDR therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CDR to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Loan available to CDR on a grant basis under a Subsidiary Agreement to be entered into between the Borrower and CDR, under terms and conditions which shall have been approved by the Bank.

(c) The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods, works and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by CDR pursuant to Section 2.03 of the Project Agreement.

Section 3.04 The Borrower shall maintain or cause CDR to maintain the PMT within CDR, with members whose qualifications, experience and terms of reference shall be at all times acceptable to the Bank, to provide assistance to CDR and the PIs in carrying out their respective Project implementation functions in accordance with the provisions of the Operations Manual.

Section 3.05. The Borrower shall require or cause CDR to require the PMT to: (i) ensure that Subprojects are appraised and implemented in accordance with the provisions of the Operations Manual; (ii) ensure that any land or right of way required for construction or civil works under the proposed Subprojects is acquired pursuant to the laws and regulations of the Borrower; (iii) ensure that the carrying out of the Subprojects shall not involve the involuntary resettlement of local population; (iv) ensure that the environmental screening of any Subproject shall be conducted in accordance with the Operations Manual and the preparation of any required environmental assessments shall be carried out in a manner satisfactory to the Bank;

and (v) supervise the preparation of environmental assessments and ensure that environmental mitigating and monitoring measures of Subprojects are properly implemented.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and 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, including a separate opinion by said auditors as to whether the Project Management Reports or 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; 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.

ARTICLE V

Remedies of the Bank

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

- (a) CDR 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 CDR will be able to perform its obligations under the Project Agreement.
- (c) Legislative Decree No. 5, dated January 31, 1977 and Law No. 295 dated April 3, 2001 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CDR 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 CDR or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (k) 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 sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

(b) The events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

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 Agreement has been executed on behalf of the Borrower and CDR;

(b) the PMT has been established with professional staff in adequate numbers and with terms of reference satisfactory to the Bank;

(c) the Borrower has prepared, under terms of reference satisfactory to the Bank, and furnished to the Bank a Project Implementation Plan (PIP) satisfactory in form and in substance to the Bank; and

(d) the Borrower has prepared, under terms of reference satisfactory to the Bank, and furnished to the Bank the Operations Manual satisfactory in form and in substance to the 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 CDR, and is legally binding upon CDR in accordance with its terms; and

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

Section 6.03. The date one hundred twenty (120) 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. Except as provided in Section 2.10 of this Agreement, 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
Beirut, Lebanese Republic

Facsimile:

961 1 642 762

For the Bank:

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

| | | |
|-------------------------------|--------------------------------|----------------|
| Cable address: | Telex: | Facsimile: |
| INTBAFRAD Washington, D.C. | 248423 (MCI) or 64145 (MCI) | (202) 477-6391 |

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

LEBANESE REPUBLIC

By /s/ Fuad Siniori

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Joseph Saba

Acting Regional Vice President
Middle East and North Africa Region

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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 US Dollars) | % of Expenditures to be Financed |
|---|---|--|
| (1) Subproject Grants under: | | 90% |
| (a) Part A (2) of the Project | 11,000,000 | |
| (b) Parts A (1) and B of the Project | 3,000,000 | |
| (2) Consultants' services and training | 4,000,000 | 100% |
| (3) Fee | 200,000 | Amount due under Section 2.04 of this Agreement |
| (4) Premia for Interest Rate Caps and Interest Rate Collars | 0 | Amount due under Section 2.09(c) of this Agreement |
| (5) Unallocated | 1,800,000 | |
| TOTAL | 20,000,000 | |

2. 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; and (b) expenditures under Category (1) (a) related to any Subproject, unless such Subproject Grant has been provided in accordance with the criteria,

procedures and terms and conditions set forth or referred to in this Agreement, the Project Agreement and the provisions of the Operations Manual.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) Subproject Grants under contracts costing less than US\$100,000 equivalent each; (b) services under consultant firms contracts costing less than US\$100,000 equivalent each and under individual consultant contracts costing less than US\$50,000 equivalent each; and (c) training costing less than US\$25,000 equivalent each, under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in United States dollars a special deposit account, in its Central Bank, on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of the Project Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of the Project Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of the Project Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01(b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equivalent to two million United States dollars (US\$2,000,000) to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to one million United States dollars (US\$1,000,000) until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of five million United States dollars (US\$5,000,000).

2. Withdrawals of the Special Account's Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Special Account's Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the said Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Special Account's 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.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such

deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of four million United States dollars (US\$4,000,000).

SCHEDULE 2

Description of the Project

The objective of the Project is to establish an effective and sustainable instrument to improve the living conditions and the economic status of disadvantaged communities.

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: Social and Infrastructure Development

Provision of Subproject Grants for:

- (1) carrying out social assessments and designing programs of Subprojects; and
- (2) the implementation of programs of Subprojects which consist of: (a) improving access to basic education, health and social services through the rehabilitation and service upgrading of schools, health, youth, cultural and recreation centers and facilities in poor areas; (b) carrying out programs for revolving school textbooks, literacy, and primary health care; (c) improving access to specialized social services to satisfy the needs of vulnerable groups at risk, including the disabled, children, youth, women and the elderly; (d) developing basic rural infrastructure activities such as community potable water supply, small waste water disposal schemes, small irrigation and drainage schemes, small access and agricultural roads, land reclamation and rehabilitation of terraces; and (e) enhancing environmental protection activities such as reforestation and soil erosion control, wells and spring protection and preservation of natural resources and cultural heritage sites.

Part B: Income Enhancement

Provision of Subproject Grants for capacity building activities to support: (1) micro and small entrepreneurs and non governmental organizations providing credit to target beneficiary groups; and (2) women, youth and disabled people in order to provide them with demand driven specialized skills to improve their income and enhance their business opportunities.

Part C: Project Management Support

Provision of technical advisory services and training for Project management and for support to CDR and the PIs to ensure the effective carrying out of the Project and the supervision of its execution.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment

Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

| Date Payment Due | Installment Share (Expressed as a %) |
|-------------------|---|
| November 15, 2001 | 0.00% |
| May 15, 2002 | 0.00% |
| November 15, 2002 | 0.00% |
| May 15, 2003 | 0.00% |
| November 15, 2003 | 0.00% |
| May 15, 2004 | 0.00% |
| November 15, 2004 | 0.00% |
| May 15, 2005 | 0.00% |
| November 15, 2005 | 0.00% |
| May 15, 2006 | 0.00% |
| November 15, 2006 | 0.00% |
| May 15, 2007 | 0.00% |
| November 15, 2007 | 0.00% |
| May 15, 2008 | 10.00% |
| November 15, 2008 | 10.00% |
| May 15, 2009 | 0.00% |
| November 15, 2009 | 0.00% |
| May 15, 2010 | 10.00% |
| November 15, 2010 | 10.00% |
| May 15, 2011 | 10.00% |
| November 15, 2011 | 9.00% |
| May 15, 2012 | 9.00% |
| November 15, 2012 | 8.00% |
| May 15, 2013 | 6.00% |
| November 15, 2013 | 5.00% |
| May 15, 2014 | 5.00% |

| Date Payment Due | Installment Share (Expressed as a %) |
|-------------------|---|
| November 15, 2014 | 4.00% |
| May 15, 2015 | 4.00% |
| TOTAL | 100% |

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

