

CONFORMED COPY

LOAN NUMBER 3983 EE

Loan Agreement

(Agriculture Project)

between

REPUBLIC OF ESTONIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 7, 1996

LOAN NUMBER 3983 EE

LOAN AGREEMENT

AGREEMENT, dated August 7, 1996, between REPUBLIC OF ESTONIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "PIU" means the Project Implementation Unit within the Borrower's Ministry of Agriculture, to be established in accordance with Section 5.01 (b) of this Agreement and maintained in accordance with paragraph 1 (b) of Schedule 5 to this Agreement;

(b) "PSC" means the Inter-Ministerial Project Steering Committee to be established in accordance with Section 5.01 (b) of this Agreement and maintained in accordance with paragraph 1 (a) of Schedule 5 to this Agreement;

(c) "Land and Water Association" or "LWA" means an association of farmers in a drainage area established and operating pursuant to the Land Amelioration Law of the Borrower dated April 20, 1994;

(d) "Private Advisory Services Development Fund" or "PASDF" means a fund to be established and administered by the Ministry of Agriculture of the Borrower in accordance with paragraph 2 (b) of Schedule 5 to this Agreement;

(e) "National Agricultural Extension Task Force" or "NAETF" means a task force to be established and administered by the Ministry of Agriculture of the Borrower in accordance with Section 5.01 (c) of this Agreement, to develop the national agricultural extension strategy and monitor its implementation;

(f) "Est-Survey" means the state-owned enterprise of the Borrower, consisting of fifteen regional land survey offices, responsible for carrying out land surveys and cadastre map storing activities;

(g) "National Land Board" means the agency under the Borrower's Ministry of Environment responsible for land cadastre keeping, geodesy and mapping;

(h) "National Geodetic Network" means the geographical base coordination system of the Borrower's territory;

(i) "Technical Services" means all land surveying, mapping and cadastre registration services to be provided under Parts A(2) and A(3) of the Project;

(j) "Deutsche Mark" and "DEM" each means the lawful currency of the Federal Republic of Germany; and

(k) "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, an amount equal to twenty-two million Deutsche Marks (DEM 22,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Deutsche Marks a special deposit account in a commercial bank acceptable to the 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 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001 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 per cent (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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Deutsche Marks for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan, as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable on June 15 and December 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section

and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services (other than the services of the consultants referred to in paragraph (b) below) required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

(b) The Borrower shall, with respect to consultants' services required to be employed for the Project and to be financed out of proceeds other than the Loan, consult with the Bank on the terms of reference for said consultants.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project;

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

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 four months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

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

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual

audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 Borrower has promulgated as official regulations the environmental screening criteria and procedures applicable to all drainage rehabilitation works in the Borrower's territory and has published these regulations and procedures;

(b) the Borrower has established the PSC and the PIU and has appointed: (i) the Chairman and members of the PSC; and (ii) the PIU's Project Manager, procurement specialist, accountant and monitoring and evaluation specialist with qualifications, experience and terms of reference satisfactory to the Bank;

(c) the Borrower has established NAETF under terms and conditions and with composition and budget satisfactory to the Bank, and has appointed NAETF's manager and an extension officer with qualifications, experience and terms of reference satisfactory to the Bank; and

(d) the Borrower has made adequate allocations for the Project in the budget for the year 1996.

Section 5.02. 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 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
1 Suur-Ameerika
EE0100 Tallinn
Republic of Estonia

Telex:

173106 PLAAN

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:

INTBAFRAD
Washington, D.C.

248423 (MCI)
64145 (MCI)

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 ESTONIA

By /s/ Toomas H. Ilves

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil Kavalsky

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Deutsche Marks)	% of Expenditures to be Financed
(1) Goods	2,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(2) Works	6,400,000	60%
(3) Consultants' Services and Training		
(a) Studies	700,000	100%
(b) Design and supervision of drainage works	1,200,000	80%
(c) Agricultural Advisory Services	3,400,000	80%

under Part D (1)
of the Project

(d)	Training	300,000	100%
(4)	Technical Services under Parts A(2) and A(3) of the Project	5,600,000	60%
(5)	Unallocated	2,000,000	
	TOTAL	<u>22,000,000</u>	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) Category 3(c) before the Borrower has presented to the Bank: (i) a form of a standard contract for the provision of agricultural advisory services satisfactory to the Bank; and (ii) the selection criteria satisfactory to the Bank for the agricultural advisors to be engaged for the purposes of Part D of the Project; and (c) Category (4) before the Borrower has: (i) published the tender for privatization of at least five of Est-Survey's regional land survey offices or terminated Est-Survey's commercial land survey activities; and (ii) contracted all publicly funded land and property surveys to private surveyors under competitive bidding procedures satisfactory to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for: (a) goods under contracts not exceeding \$300,000 equivalent; (b) works under contracts not exceeding \$300,000 equivalent; (c) Technical Services under contracts not exceeding \$300,000 equivalent; and (d) services under contracts not exceeding \$50,000 equivalent for individual consultants and \$100,000 equivalent for consulting firms.

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase rural incomes and stimulate the rural economy through rural entrepreneurship by providing assistance for: (a) privatization of rural lands; (b) privatization and rehabilitation of select rural infrastructure; (c) improvement of human resources skills for entrepreneurship in rural areas; (d) introduction of new farming technologies consistent with transformed private agriculture; and (e) improved food quality.

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: Land Reform

Carrying out: (1) a study on the disposal of state-owned rural land to accelerate the transfer of such land to the private sector through sale or lease; (2) surveys and measuring work through private companies to complete the National Geodetic Network; and (3) land surveys through private surveying companies and cadastre registration of: (a) lands to benefit from drainage rehabilitation under Part B of the Project; and (b) other rural lands.

Part B: Farm Drainage Rehabilitation

Improving the capacity of existing farmland drainage, excluding polders and wet forests, with extensive farmers' participation by: (1) rehabilitating existing drainage systems of about 60,000 ha with works covering: (a) main channel rehabilitation; (b) rehabilitation of collector drains; (c) flushing of subsurface pipe outlets entering collector drains; and (d) selective tillage of compacted soils; (2) organizing farmers in about sixty Land and Water Associations with the responsibility for future operation and maintenance of the drainage systems; and (3) developing an adaptive research program for (a) reduction of maintenance costs; and (b) environmental protection.

Part C: Land Use Management

(1) Formulation of a national strategy for wetlands management on the basis of a wetlands management strategy study;

(2) carrying out environmental screening of sites for, and monitoring of, the drainage rehabilitation works; and

(3) carrying out of an environmental study on future drainage investments analyzing options for drained lands and measures needed to convert drained land to other uses.

Part D: Agricultural Advisory Services

(1) Establishment of the Private Advisory Services Development Fund and the provision through PASDF to eligible farmers of temporary and partial funding to contract private sector advisory services in farming and rural business;

(2) strengthening of the publicly funded extension service through training and technical assistance to develop educational programs on improved agricultural practices; and

(3) supporting selected rural information centers with equipment and technical assistance to assist the rural population in finding alternative rural employment.

Part E: Food Quality Control and Veterinary Laboratories

Strengthening the state-owned veterinary and food control laboratories through:

(1) laboratory equipment for the quality control of Estonian food and livestock products; and (2) training of personnel for the operations of food quality and veterinary control facilities.

Part F: Project Management

Provision of expert services and facilities for project management activities, primarily for accounting, procurement, monitoring and evaluation, and project management.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Deutsche Marks) *
June 15, 2001	915,000.00
December 15, 2001	915,000.00
June 15, 2002	915,000.00
December 15, 2002	915,000.00
June 15, 2003	915,000.00
December 15, 2003	915,000.00
June 15, 2004	915,000.00

December 15, 2004	915,000.00
June 15, 2005	915,000.00
December 15, 2005	915,000.00
June 15, 2006	915,000.00
December 15, 2006	915,000.00
June 15, 2007	915,000.00
December 15, 2007	915,000.00
June 15, 2008	915,000.00
December 15, 2008	915,000.00
June 15, 2009	915,000.00
December 15, 2009	915,000.00
June 15, 2010	915,000.00
December 15, 2010	915,000.00
June 15, 2011	915,000.00
December 15, 2011	915,000.00
June 15, 2012	915,000.00
December 15, 2012	955,000.00

TOTALS	22,000,000.00
	=====

* The figures in this column represent the amount in Deutsche Marks to be repaid, except as provided in Section 4.04(d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. To the extent practicable, contracts for goods to be awarded in accordance with the provisions of paragraph 1 of this Part B shall be grouped into bid packages estimated to cost the equivalent of \$300,000 or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works and Technical Services may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost \$100,000 equivalent or less per contract and \$150,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost \$50,000 equivalent or less per contract and \$150,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for: (a) goods under Part B of this Section, (b) works estimated to cost the equivalent of \$300,000 or more, and (c) the first two contracts for works and Technical Services awarded every year, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not covered by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on 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, other standard forms acceptable to the Bank shall be used.

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 (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain until completion of the Project:

(a) the PSC with overall responsibility for all aspects of Project implementation consisting of key members from the Ministries of Agriculture and Environment, and associate members from at least the Ministries of Justice and Finance, the Farmers' Union and the Producers' Union, the Estonian Food Board, a representative of the municipalities concerned, and two Joint Project Directors from the Ministry of Agriculture and Environment respectively; and

(b) the PIU in the Ministry of Agriculture to carry out the following activities: (i) coordination of and support to the implementing agencies; (ii)

administration, accounting and financial management; (iii) procurement coordination and supervision; (iv) loan withdrawals; (v) monitoring and evaluation; and (vi) reporting.

2. The Borrower shall:

(a) except as otherwise agreed with the Bank, by March 31, 1996 initiate studies acceptable to the Bank to formulate and develop a plan for a national policy for the transfer of state-owned rural and farming lands to private owners and publish and present to the Bank by March 31, 1997 the findings of said studies and the proposed plan, including a timetable for said plan's implementation, and, thereafter, implement the same taking into consideration the Bank's views on the matter;

(b) by May 31, 1996: (i) establish the PASDF to provide grants to farmers to finance private agricultural advisory services; and (ii) appoint a manager of the PASDF, with qualifications, experience and terms of reference satisfactory to the Bank;

(c) by June 30, 1996, transfer the cadastre registration activities of Est-Survey to the National Land Board;

(d) by June 30, 1996, establish a contract administration unit with a manager and four staff in the National Land Board to manage and supervise the Technical Services under Parts A(2) and A(3) of the Project; and

(e) prepare progress reports every quarter on the procurement of goods and services under the Project and furnish said reports to the Bank.

3. Before commencement of the drainage rehabilitation works under Part B (1) of the Project on any specific drainage site the Borrower shall: (a) register in the cadastre all land at that specific drainage site to benefit from drainage rehabilitation; and (b) make available all such state-owned agricultural land for purchase or lease in accordance with procedures acceptable to the Bank.

4. The Borrower shall select the drainage sites under Part B (1) of the Project in accordance with criteria satisfactory to the Bank.

5. The Borrower shall take all necessary measures to ensure that the members of the LWA benefiting from the drainage rehabilitation shall contribute 20% of the costs of the drainage rehabilitation works either in cash or by providing labor.

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) except as otherwise agreed with the Bank, prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, by April 1, 1998, a report covering the period through December 31, 1997, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 1998, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Bank's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equal to DEM 1,400,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to DEM 700,000 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 be equal to or exceed DEM 4,300,000.

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 into the Special Account of an amount or amounts 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 into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the Special Account, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions on account of the respective Parts 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 allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

