

CONFORMED COPY

LOAN NUMBER 3467 POL

(Private Enterprise Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

POLISH DEVELOPMENT BANK

Dated July 17, 1992

LOAN NUMBER 3467 POL

LOAN AGREEMENT

AGREEMENT, dated July 17, 1992, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and POLISH DEVELOPMENT BANK (the Borrower).

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

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) the Guarantor intends to agree with the Commission of the European Communities (the EC) a grant (the EC Grant) in an amount of 6,000,000 European Currency Unit (ECU) to assist in financing the Project on the terms and conditions set forth in an agreement (the EC Grant Agreement) to be entered into between the

Borrower and the EC; 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" 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Beneficiary" means any enterprise to which a Participating Bank proposes to make or has made a Sub-loan;

(b) "Category" means a Category of items to be financed out of the proceeds of the loan as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(c) "Charter" means the Charter of the Polish Development Bank dated October 11, 1990;

(d) "Deutsche Mark" means Deutsche Mark in the currency of the Federal Republic of Germany.

(e) "Participating Bank" means any lending institution with which the Borrower has entered into a Subsidiary Financing Agreement;

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

(g) "Special Account B" means the account referred to in Section 2.02 (c) of this Agreement;

(h) "Special Accounts" means Special Account A and Special Account B, and "Special Account" means Special Account A when such term is used in Schedule 6 to this Agreement and Special Account B when such term is used in Schedule 7 to this Agreement;

(i) "Statement of Policy" means PDB's statement of lending and investment policy as adopted and approved by the Directors of PDB on May 20, 1991;

(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 to a Beneficiary for a Sub-project;

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

(l) "Subsidiary Financing Agreement" means any agreement to

be entered into between the Borrower and a Participating Bank pursuant to paragraph 1 (a) of Schedule 5 to this Agreement;

(m) "Subsidiary Finance" means any loan provided under a Subsidiary Financing Agreement; and

(n) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and the Guarantor pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time.

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 sixty million dollars (\$60,000,000), 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 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 shall, for the purposes of Part A of the Project, open and maintain in dollars a special deposit account in a bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, such Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) The Borrower shall, for the purposes of Part B of the Project, open and maintain in dollars a special deposit account in a bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, such Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1999 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 and the Guarantor 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 and the Guarantor 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 May 1 and November 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 Part A of the Project, and take all action required on its part to enable Part B of the Project to be carried out by the Guarantor, with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and economic practices, and to enable the Guarantor to perform its obligations under the Subsidiary Loan Agreement; shall conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Charter and the Statement of Policy; and shall provide, promptly as needed, the funds, facilities, services, staff and other resources required for the purpose.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule

5 to this Agreement.

(c) For the purpose of carrying out Part B of the Project, the Borrower shall make available to the Guarantor the equivalent in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services under Part B of the Project and financed out of the proceeds of the Loan allocated from time to time to Category (2) under a subsidiary loan agreement to be entered into between the Borrower and the Guarantor, under terms and conditions which shall have been approved by the Bank and which shall include, without limitation, terms pursuant to which the Guarantor shall undertake to: (i) repay the principal amount so made available over a period of 17 years, including a grace period of five years; and (ii) pay interest on such principal amount, withdrawn and outstanding from time to time, at a rate equal at least to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, plus an additional charge.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement and the Subsidiary Financing Agreements in such manner as to protect the interests of the Bank and the Borrower 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 any such Agreement, or any provision thereof.

Section 3.02. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, the use of goods and services, plans and schedules, records and reports and maintenance, respectively) in respect of Part B of the Project, shall be carried out by the Guarantor pursuant to Section 3.04 of the Guarantee Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain procedures and records adequate to monitor and record the progress of Part A of the Project and of each Sub-project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), including those for Special Account A, and the records and accounts for the separate accounts referred to in Section 4.02 of this Agreement, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements 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, accounts and financial statements as well as 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, 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.

Section 4.02. Except as the Bank shall otherwise agree, the Borrower shall, in respect of payments and repayments to the Borrower under Subsidiary Financing Agreements, open and thereafter maintain a separate account on its books in accordance with the provisions of Section 4.01 (a) of this Agreement for each currency so paid and repaid, to which it shall credit each repayment of principal and payment of interest and other charges under any Subsidiary Financing Agreement upon receipt thereof. The Borrower shall utilize all amounts so credited, to the extent they are not yet required to meet the Borrower's payment obligations to the Bank under this Agreement, exclusively to finance, through the Participating Banks, specific development projects similar to the Sub-projects.

Section 4.03. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against exchange rate and interest rate risks arising from its operations under the Project.

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) The Charter or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement.

(b) The EC Agreement shall have failed to come into force by May 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.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely the Subsidiary Loan Agreement shall have been signed by the parties thereto.

Section 6.02. 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 President 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 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)

For the Borrower:

Polish Development Bank
00-680 Warsaw
Zurawia Str. 47/49
Poland

Telex:

812698

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ W. Thalwitz
Regional Vice President
Europe and Central Asia

POLISH DEVELOPMENT BANK

By /s/ J. Tomorowicz
Authorized Representative

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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Under Part A of the Project:		
(a) Goods	43,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(b) Civil works	5,000,000	40%
(c) Consultants' services and training	3,000,000	100%
(d) Capitalized interest	4,000,000	Amounts capi- talized pursuant to paragraph 3 of Part A of

Annex B to
Schedule 5 to
the Loan Agreement

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(2) Under Part B of the Project:		
(a) Goods	500,000	100% of foreign expenditures and 100% of local expenditures (ex- factory cost) and 80% of local expenditures for other items pro- cured locally
(b) Consultants' services and training	1,500,000	100%
(3) Unallocated	3,000,000	
TOTAL	60,000,000 =====	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in accelerating the privatization of the Guarantor's economy through: (i) financing of private enterprise investments, and (ii) strengthening of institutional capabilities required for the promotion of the private sector.

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 financing through loans by the Borrower of specific development projects to restructure the operations, upgrade and expand the facilities, cover the permanent working capital requirements and strengthen the organization, management and operations of existing or new private enterprises.

Part B:

The design and carrying out of programs to strengthen institutional capabilities and to promote the efficient development of the private sector, including:

(1) (a) The carrying out of a program to further strengthen the management and operations of the Office of the Undersecretary for Business Promotion of the Guarantor's Ministry of Industry and Trade and the capabilities of said Office in monitoring and evaluating the implementation of the strategies referred to in sub-paragraph (b) hereof; (b) the carrying out by said Office of studies on strategies to further develop the private sector; and (c) the provision of technical assistance and equipment required therefor.

(2) (a) The carrying out of a program to further strengthen the management and operations of the Project Support Unit of the Cooperation Fund of the Guarantor's Ministry of European Integration and Foreign Aid Coordination; (b) the carrying out of a program to assist local organizations responsible for the promotion of private sector activities in the design and implementation of local private investment promotion programs and business training programs; and (c) the provision of technical assistance and equipment required therefor.

(3) The provision of grants to local organizations for specific development projects to provide support services and business training to enterprises, including the provision of equipment required therefor.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 1 and November 1	
beginning November 1, 1997 through May 1, 2009	2,500,000

* 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	0.88

more than 15 years
before maturity

More than 15 years before maturity 1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in the territory of the Guarantor may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Under Part A of the Project:

(a) Goods estimated to cost the equivalent of \$2,000,000 or less per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

(b) Works and goods estimated to cost the equivalent of less than \$1,000,000 per contract may be purchased in accordance with the established commercial practice of the purchaser, at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor.

2. Under Part B of the Project:

(a) Goods may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

(b) Works may be purchased in accordance with the established commercial practice of the purchaser, at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency.

3. Goods and technical licenses which the Bank agrees are of a proprietary nature, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of more than \$2,000,000, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the

Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of said Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract, together with the other information required to be furnished to the Bank pursuant to said paragraph 3, shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 or 7, as the case may be, to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

Consultants' services shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) ensure that, unless the Bank shall otherwise agree, Sub-loans will be made through the Participating Bank to Beneficiaries under Subsidiary Financing Agreements to be entered into between the Borrower and each such Participating Bank on terms and conditions which shall have been approved by the Bank and which shall include, without limitation, those set forth or referred to in Annex A to this Schedule; and

(b) exercise its rights under the Subsidiary Financing Agreements in such manner as to protect its interests and the interests of the Bank and to achieve the purposes of the Project, and, except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any such agreement.

2. The Borrower shall:

(a) coordinate and monitor the overall execution of Part A of the Project and supervise the carrying out by the Participating Banks of their obligations pursuant to their respective Subsidiary Financing Agreements, in accordance with policies and procedures satisfactory to the Bank; and

(b) take all measures to ensure that, except as the Bank shall otherwise agree, the aggregate amount of all Sub-loans, or any one Sub-loan (i) to any one Beneficiary, shall not exceed the equivalent of \$4,000,000, and (ii) for any one Sub-project, shall not exceed the equivalent of \$2,000,000.

ANNEX A TO SCHEDULE 5

Terms and Conditions of

Subsidiary Financing Agreements

Further to the provisions of paragraph 1 (b) of Schedule 5 to this Agreement and except as the Bank shall otherwise agree, the principal terms and conditions set forth or referred to in this Annex shall apply for the purposes of paragraph 1 (a) of said Schedule.

A. Terms:

1. The principal amount of the Subsidiary Finance to be made available by the Borrower to a Participating Bank under its respective Subsidiary Financing Agreement shall be:

(a) denominated in dollars, Deutsche Mark, or other currencies as referred to in Section 2.01 of this Agreement with the portion thereof denominated in dollars being the sum total of the Sub-loans made out of its proceeds and denominated in dollars; with the portion thereof denominated in Deutsche Mark being the sum total of the Sub-loans made out of its proceeds and denominated in Deutsche Mark; and with the portion thereof denominated in another currency being the sum total of the Sub-loans made out of its proceeds and denominated in such currency; and

(b) equal to the equivalent of the aggregate amount of (i) principal of all Sub-loans made out of the proceeds thereof, and (ii) interest payments on such Sub-loans capitalized as provided in paragraph 3 of this Part.

2. The portion of each Subsidiary Finance 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, (i) at a fixed rate or (ii) at a rate equal to LIBOR, in each case plus a margin, as shall be calculated by the Borrower on the basis of guidelines acceptable to the Bank; (b) Deutsche Mark 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, (i) at a fixed rate or (ii) at a rate equal to FIBOR, in each case plus a margin, as shall be calculated by the Borrower on the basis of guidelines acceptable to the Bank; and (c) any other currency 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, (i) at a fixed rate or (ii) at a rate comparable to LIBOR/FIBOR for floating rate loans, in each case plus a margin, as shall be calculated by the Borrower on the basis of guidelines acceptable to the Bank.

3. Interest payments on each Subsidiary Finance shall be capitalized to the extent that interest payments on Sub-loans made out of the proceeds thereof are capitalized as provided in paragraph 3 of Part A of Annex B to Schedule 5 to this Agreement.

4. Each Subsidiary Finance shall be repaid in accordance with an amortization schedule pursuant to which each portion thereof utilized in the making of a Sub-loan shall have a maturity calculated to conform to the amortization schedule applicable to such Sub-loan.

5. The right of each Participating Bank to the use of its respective Subsidiary Finance shall be: (a) suspended upon failure by such Participating Bank to perform any of its obligations under its respective Subsidiary Financing Agreement; and (b) terminated if such right shall have been suspended pursuant to sub-paragraph (a) hereof for a continuous period of sixty days.

B. Conditions

1. A Subsidiary Financing Agreement may be entered into with a bank, duly established and operating under the laws of the Guarantor, which the Borrower shall have determined and the Bank

shall have agreed:

(a) is in compliance with all legal and regulatory requirements applicable to its operations;

(b) is operating pursuant to acceptable lending policies and procedures, including without limitation, procedures to appropriately manage foreign exchange transactions;

(c) has a sound financial structure and satisfactory financial policies and performance, and the organization, management, staff and other resources required for the efficient carrying out of its operations; and

(d) has established a credit committee in accordance with the provisions of, and for the purposes set forth in, paragraph 2 (c) of this Part.

2. Each Subsidiary Financing Agreement shall contain provisions pursuant to which the Participating Bank which is a party thereto shall undertake to:

(a) (i) carry out its activities under the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff, and in accordance with the lending policies and procedures referred to in paragraph 1 (b) of this Part, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose; and (ii) without limitation upon the foregoing, maintain at all times a sound financial structure and take all measures required to continue to achieve a sound financial performance, as determined on the basis of guidelines satisfactory to the Bank and the Borrower;

(b) (i) make Sub-loans to Beneficiaries on the terms and conditions set forth or referred to in Annex B to Schedule 5 to this Agreement; (ii) exercise its rights in relation to each Sub-loan in such manner as to protect its interest and the interests of the Bank and the Borrower, comply with its obligations under its respective Subsidiary Financing Agreement and achieve the purposes of the Project; (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Borrower; and (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, in accordance with procedures satisfactory to the Bank and the Borrower.

(c) maintain, with staff and other resources and terms of reference, satisfactory to the Bank and the Borrower: a credit committee to be responsible for the provision of assistance and advice to its management on all matters relating to its lending operations, including the evaluation of Sub-loan applications;

(d) (i) exchange views with, and furnish all such information to, the Borrower, as may be reasonably requested by the Borrower or the Bank, in coordination with the Borrower, with regard to the progress of its activities under Part A of the Project, the performance of its obligations under its respective Subsidiary Financing Agreement, and other matters relating to the purposes of the Project; and (ii) promptly inform the Borrower and the Bank, through the Borrower, of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Financing Agreement; and

(e) (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (iii) furnish to the Bank and the Borrower as soon as available, but in any case not later than six months

after the end of each such year: (A) certified copies of said financial statements and accounts for such year as so audited; (B) the report of such audit by said auditors in such scope and detail as the Bank or the Borrower shall have reasonably requested; and (iv) furnish to the Bank or the Borrower such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank or the Borrower shall from time to time reasonably request.

ANNEX B TO SCHEDULE 5

Terms and Conditions of Sub-loans

Further to the provisions of paragraph 2 (b) (i) of Part B of Annex A to Schedule 5 to this Agreement and except as the Bank shall otherwise agree, the principal terms and conditions set forth or referred to in this Annex shall apply for the purposes of said paragraph 2 (b) (i).

A. Terms

1. The principal amount of each Sub-loan shall be: (a) denominated in dollars or Deutsche Mark at the option of the Beneficiary, or any other currency as the Borrower may accept; and (b) equal to the sum total of: (i) the equivalent in the currency of denomination (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services financed out of the proceeds of the Loan for the Sub-project; and (ii) the amount of interest payments on such Sub-loan capitalized as provided in paragraph 3 of this Part.

2. Each Sub-loan shall be charged, on the principal amount thereof withdrawn and outstanding from time to time, interest at the rate of interest applicable to loans made by the Participating Bank making the Sub-loan pursuant to its lending policies and procedures referred to in paragraph 1 (b) of Part B of Annex A to Schedule 5 to this Agreement.

3. Interest payments on Sub-loans accrued and payable during the execution of the Sub-projects financed thereunder may be capitalized and paid out of the proceeds of such Sub-loan in accordance with guidelines satisfactory to the Bank.

4. Each Sub-loan shall be made for a period not exceeding seven years, inclusive of a grace period not exceeding three years.

5. Each Sub-loan shall be made on terms whereby the Participating Bank making the Sub-loan shall obtain, by written contract with the Beneficiary or by other appropriate legal means, rights adequate to protect its interests and the interests of the Bank and the Borrower, including:

(a) undertakings that the Beneficiary shall: (i) carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and practices and appropriate health, safety and environmental standards satisfactory to the Bank, and provide, promptly as needed, the funds, facilities and other resources required for the purpose; (ii) procure the goods and services to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Agreement, and use such goods and services exclusively in the carrying out of the Sub-project; (iii) enable the Bank, the Borrower and the Participating Bank making the Sub-loan to inspect such goods and the sites and works included in the Sub-project, the operation thereof, and any relevant records and documents; (iv) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice including without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the

place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods; (v) at all times maintain a sound financial structure and take all measures to achieve a sound financial performance (including in the case of Sub-loans in amounts of \$300,000 equivalent or more, maintaining a debt/equity ratio of not more than 60:40 and a debt service coverage ratio of at least 1.5), all as determined and calculated on the basis of guidelines satisfactory to the Bank, the Borrower and the Participating Bank making the Sub-loan; (vi) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition; (vii) prepare and furnish to the Borrower and the Participating Bank making the Sub-loan, for forwarding to the Bank if so requested by the Bank, all such information as the Bank, the Borrower or said Participating Bank shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and (viii) (A) have its financial statements (balance sheets, income statements and cash flow statements) for each fiscal year audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank, and (B) furnish to the Borrower and the Participating Bank, for forwarding to the Bank if so requested by the Bank, (1) as soon as available, but in any case not later than six months after the end of each such year, certified copies of its financial statements for such year as so audited, and the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonable requested, and (2) such other information concerning the accounts and records referred to in paragraph (a) (vi) hereof, as the Bank, the Borrower or the Participating Bank shall from time to time reasonably request; and

(b) the right to suspend or terminate the right of the Beneficiary to the use of the proceeds of the Sub-loan upon failure by such Beneficiary to perform its obligations under its contract providing for the Sub-loan.

B. Conditions

1. Each Sub-loan shall be made only to a Beneficiary which: (a) is a majority private-owned enterprise duly established and operating under the laws of the Guarantor; (b) has no more than 500 employees; and (c) shall have established to the satisfaction of the Participating Bank making the Sub-loan, on the basis of guidelines satisfactory to the Bank, that (i) it is creditworthy and has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of its operations, including the Sub-project, and (ii) its projected internal cash generation or equity increases and the provision of other financing obtained by it shall be sufficient to enable it to meet the estimated expenditures required for the carrying out of the Sub-project.

2. Each Sub-loan shall be made only for a Sub-project which is: (a) determined to be technically feasible and financially viable and designed in accordance with appropriate health, safety and environmental standards; and (b) in the case of a Sub-project whose total estimated cost is the equivalent of at least \$300,000, calculated to have a financial rate of return of at least 15%; all as shall be determined and calculated by the Participating Bank making the Sub-loan on the basis of guidelines satisfactory to the Bank.

3. The total amount of each Sub-loan made to a Beneficiary for a given Sub-project shall not exceed the lesser of the equivalent of: (a) \$2,000,000; or (b) 80% of the total estimated cost of such Sub-project if the Sub-project is for the expansion or upgrading of an existing enterprise, or 50% of the total estimated cost of such Sub-project if the Sub-project is for the establishment of a new enterprise.

4. Expenditures for goods and services required for a Sub-project

shall be eligible for financing out of the proceeds of the Loan only if:

(a) such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank or the Borrower, as the case may be, shall have received the information required under sub-paragraph (b) or (c) hereof;

(b) if the Sub-loan for such Sub-project shall have been (i) made for a principal amount equivalent to \$1,000,000 or more, or (ii) one of the first three Sub-loans to be made by each Participating Bank, and such Sub-loan shall have been approved by the Bank on the basis of information furnished to the Bank comprising an application, in form satisfactory to the Bank, together with a description of the Beneficiary and an appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, the proposed terms and conditions of the Sub-loan, including the schedule of amortization thereof, and such other information as the Bank shall reasonably request; and

(c) if the Sub-loan shall have been a Sub-loan other than a Sub-loan referred to in sub-paragraph (b) hereof, and such Sub-loan shall have been approved by the Borrower on the basis of information furnished to the Borrower comprising a summary description of the Beneficiary and the Sub-project, including a description of the expenditures to be financed out of the proceeds of the Loan, and the terms and conditions of the Sub-loan, including the schedule of amortization therefor; provided, however, that such information shall contain, in addition, for each Sub-loan made for a principal amount equivalent to \$300,000 or more, the appraisal report of the Sub-project.

SCHEDULE 6

Special Account A

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Category 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 equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited in 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 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; or

- (b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.

SCHEDULE 7

Special Account B

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Category 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 equivalent to \$200,000 to be withdrawn from the Loan Account and deposited in 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 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.

