

CONFORMED COPY

CREDIT NUMBER 2398 GUI

(Public Enterprise Sector Rationalization
and Privatization Technical Assistance Project)

between

THE REPUBLIC OF GUINEA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 6, 1992

CREDIT NUMBER 2398 GUI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 6, 1992, between THE REPUBLIC OF GUINEA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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 Association to assist in the financing of the Project;

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit 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 Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the

General Conditions) constitute an integral part of this Agreement.

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

- (a) "BCRG" means Banque Centrale de la Republique de Guinee;
- (b) "CCEF" means Comite de Coordination Economique et Financiere, a committee presently composed of the Borrower's ministers of Foreign Affairs and Cooperation, Plan and Finance, Administrative Reform, Civil Service and Labor, as well as the Governor of the BCRG;
- (c) "Divestiture Legislation" means the legislation on divestiture referred to in Article VI, Section 6.01 (a) of this Agreement;
- (d) "Divestiture Program" means the divestiture program referred to in Schedule 4 (III) (1);
- (e) "DNMPPE" means Direction Nationale des Marches Publics et de Portefeuille de l'Etat of the MPF;
- (f) "ENELGUI" means l'Entreprise Nationale d'Electricite de Guinee;
- (g) "MPF" means the Ministry of Planning and Finance;
- (h) "MRAFPT" means the Ministry of Administrative Reform, Civil Service and Labor;
- (i) "OBK" means Office des Bauxites de Kindia, in the Ministry of Natural Resources, Energy and Environment;
- (j) "OPG" means l'Office des Postes de Guinee;
- (k) "Ordonnance" means the Borrower's ordonnance 91/025 portant cadres institutionnelles des entreprises publiques;
- (l) "PC" means the Privatization Committee, composed of one representative each of the MPF, the Ministry of Industry and Small and Medium Enterprises, the commercial banks, and three representatives of the private sector (excluding commercial banks). In addition, for each case of divestiture, a representative of the ministry supervising the public enterprise to be divested, is added to the PC;
- (m) "Project Preparation Advance" means the advances granted by the Association to the Borrower pursuant to exchanges of letters, dated February 25, 1992, and March 2, 1992, and June 15, 1992 and July 29, 1992, between the Borrower and the Association;
- (n) "SOTELGUI" means la Societe des Telecommunications de Guinee; and
- (o) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to five million four hundred thousand Special Drawing Rights (SDR 5,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of

Schedule 1 to this Agreement for expenditures made (or, if the Association 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 Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank in Guinea on terms and conditions satisfactory to the Association, 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 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 1995 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 commencing September 15, 2002 and ending March 15, 2032. Each installment to and including the installment payable on March 15, 2012 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by

the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective 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, divestiture and public utility 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 Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. With reference to Section 3.01 (a), the Borrower shall: (i) provide in its budgets amounts sufficient to cover its counterpart contributions to the costs of the Project; (ii) open and maintain, until the completion of the Project, a Project Account in a commercial bank acceptable to the Association and on terms and conditions acceptable to the Association; (iii) deposit into the Project Account an initial amount equivalent to \$200,000 (the Initial Deposit); (iv) deposit in the Project Account thereafter at annual intervals, as of the date one year following the Effective Date, an amount equivalent to the Initial Deposit; and (v) ensure that the amounts deposited in the Project Account in accordance with this Section 3.03 will be utilized exclusively to finance its counterpart contributions to the costs of the Project.

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 Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than four months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit 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 Association has received the audit report for the fiscal year in which the last withdrawal from the Credit 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 Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution, disestablishment or suspension of the activities of DNMPPE, CCEF or PC without the prior agreement of the Association, or shall in any other way through its acts or omissions have adversely affected the ability of DNMPPE, CCEF or PC to fully carry out their responsibilities under the Project;

(b) The Borrower shall have failed to adopt the Divestiture Program acceptable to the Association by March 31, 1993;

(c) Any event of suspension as defined in the Divestiture Program as adopted by the Borrower and approved by the Association occurs; and

(d) Non-compliance of the Borrower with any of his obligations concerning divestiture of public enterprises under any development credit agreement between the Borrower and the Association.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified, any event specified in paragraph (a), (b), or (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has enacted, by appropriate instrument, legislation, acceptable to the Association (the "Divestiture Legislation"), that will enable the preparation and implementation of the Divestiture Program to be carried out under the Project, including the institutional framework and main principles to be applied as set out in Schedule 4 to this Agreement;

(b) receipt by the Association of the appropriate legal instrument confirming the establishment of PC by the Borrower and setting out its terms of reference acceptable to the Association;

(c) receipt by the Association of evidence satisfactory to it, that the reorganization of the Division du Portefeuille de l'Etat of DNMPPE has been completed and is acceptable to the Association, and that DNMPPE's director, and the Chief of the Division du Portefeuille de l'Etat, with qualifications and experience acceptable to the Association, have been appointed;

(d) appointment by the Borrower of at least one local staff for, and designated to work with, each resident consultant. The qualifications and experience of these local staff will be acceptable to the Association;

(e) recruitment by the Borrower of an independent accountant whose qualifications and experience shall be acceptable to the Association and who shall be charged with maintaining the Project's records and accounts; and

(f) the Project Account has been opened and the Initial Deposit has been deposited therein.

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

Representatives of the Borrower; Addresses

Section 7.01. The Minister of the Borrower responsible for Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Planning and Finance
B.P. 579

Conakry
Guinea

Telex:

22399 MIFIGE

Fax:

224-44-17-17

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INDEVAS
Washington, D.C.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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

THE REPUBLIC OF GUINEA

By /s/ Elhadji Boubacar Barry
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edwin Lim
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
Part A.2(b) of the Project		
(1) Consultants' services and studies	280,000	100%
Other Parts of the Project		

(2) Consultants' services and studies	3,700,000	100%
(3) Training	280,000	100%
(4) Vehicles and equipment	300,000	100%
(5) Operating costs	300,000	100% of foreign expenditures and 35% of local expenditures
		Amount of the % of Expenditures to be Financed
Category	Credit Allocated (Expressed in SDR Equivalent)	
(6) Refunding of Project Preparation Advance	540,000	Amount due pursuant to Section 2.02 (c) of this Agreement
TOTAL	5,400,000 =====	

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

(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; and

(c) the term "operating costs" means incremental recurrent costs incurred for Project implementation, such as office rental, travel allowances, fuel, vehicle and equipment maintenance, office supplies, administrative expenditure associated with the sale of public enterprises, salaries of secretaries and the independent accountant contracted by 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; and

(b) Category (1) prior to receipt by the Association of evidence satisfactory to the Association that OBK has been reorganized into a "Societe Anonyme" under the Borrower's Ordonnance.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower in the preparation and execution of the second phase of its public enterprise sector rationalization and divestiture program.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Support to the Divestiture Program

1. Strengthening of DNMPPE with a view to the preparation and implementation of the Divestiture Program, including the provision of advice on marketing and sales strategies, public enterprise valuations, bid evaluations and negotiations, as well as implementation supervision and coordination.

2. Preparation and implementation of the Divestiture Program, covering:

(a) privatization or liquidation of targeted public enterprises;

(b) support to the corporatization of OBK, including the provision of advice on institutional reform, management, information and accounting systems, marketing and commercial diversification, personnel issues, the development of a privatization strategy; and the renegotiation of existing commercial arrangements of OBK;

(c) support to the restructuring of OPG and the restructuring and privatization of SOTELGUI;

(d) support to the privatization of ENELGUI; and

(e) preparation of a reorientation program for redundant public enterprise employees.

3. With a view to the development of the private sector, preparation and implementation of a legal reform program to strengthen the legal system (including the judiciary and institutions responsible for legal training) and to train members of the judiciary and other members of the legal profession.

Part B: Public Enterprise Sector Management Capacity Improvement

Strengthening of the Borrower's public enterprise sector management capacity.

1. The provision of legal advice on public enterprise reform, including the overall legal framework for privatization, the Divestiture Program, and application of the Ordonnance.

2. The development and implementation of policies and measures to restore financial discipline in the public enterprise sector.

3. In view of the development of the private sector, the development and implementation of a management information system to monitor and evaluate performance of individual public enterprises and to analyze overall sector performance.

4. The development of a regulatory framework for the public utilities including technical standards and pricing policies.

5. The carrying out of studies for the identification and development of reform measures.

6. The design and implementation of a training program on public enterprise reform issues.

* * *

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods 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).

2. To the extent practicable, contracts for equipment and vehicles shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more.

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 Republic of Guinea 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. Vehicles, equipment, goods and supplies estimated to cost between the equivalent of \$25,000 and \$100,000 per contract may, up to an aggregate amount equivalent to \$140,000, be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Vehicles, equipment, goods and supplies estimated to cost the equivalent of less than \$25,000 per contract may, up to an aggregate amount equivalent to \$190,000, 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 Association.

Part D: Review by the Association 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 \$25,000 or more, 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 the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the 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 the Special Account, such 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 Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account 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

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be

satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association 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 4

Implementation Program

I. Project Management

1. PC is responsible for the implementation and management of Part A of the Project. Part A.3 of the Project shall be implemented in conjunction with the Ministry of Justice. DNMPPE, within MPF, is responsible for the implementation and management of Part B of the Project.

2. The Borrower shall maintain DNMPPE, PC, and CCEF (including a Technical Unit) throughout the implementation of the Project in a form and composition acceptable to the Association and shall ensure that they carry out the responsibilities allocated to them under the Project.

3. The Borrower shall submit to the Association for approval by November 30 of each year DNMPPE's program and budget for the following year.

4. DNMPPE shall, for the duration of the Project, recruit an independent accountant who will maintain the Project's records and accounts.

II. Project Monitoring and Review

1. DNMPPE shall be responsible for Project monitoring and review.

2. DNMPPE shall submit semi-annual progress reports to the Association in a format approved by the Association within eight weeks of the end of each semester. These reports shall give a detailed account on progress made (measured against each monitorable actions included in the Divestiture Program) and problems encountered during Project implementation for each Part of the Project.

3. The semi-annual progress reports shall be the subject of a joint review meeting between the Borrower and the Association.

4. The Borrower and the Association shall carry out a mid-term review of the Project not later than December 31, 1993. The Borrower shall prepare the inputs required for this review. The mid-term review shall assess:

(a) the progress made in the implementation of each part of the Project;

(b) the continued validity of the Project conception and design in the light of implementation experience;

(c) the achievements of the Divestiture Program from a point of view of both quality and quantity;

(d) the need for revision of the Divestiture Program;

(e) the financial discipline in the public enterprise sector in terms of the reduction of subsidies and settlement of cross-debts;

(f) the performance of the consultants including the technical transfer to local staff; and

(g) the soundness of project management and coordination.

All recommendations resulting from this mid-term review that are endorsed by the Association shall be implemented without delay.

III. Part A of the Project

1. The Borrower shall, no later than December 31, 1992, submit to the Association for approval a detailed divestiture program (the Divestiture Program). The Divestiture Program shall target at least those public enterprises subject of the decision of the Council of Ministers of March 24, 1992 that have not yet been completely privatized or liquidated. It shall give a detailed description of how the privatization or liquidation shall be carried out and the steps to be taken in that regard up to the actual public offering. It shall distinguish between different forms of privatization and specify the procedures and principles applicable to each form. The Divestiture Program shall also include a specific action plan of PC. The Divestiture Program shall include a detailed timetable with monitorable actions that can be modified every six months subject to the prior approval of the Association.

2. The Divestiture Program shall be drafted and carried out in accordance with the following principles:

(a) The Divestiture Legislation.

(b) The assets or shares of the enterprises to be privatized or liquidated shall be sold on the basis of tender procedures that are both objective and competitive as well as transparent.

(c) For every privatization or liquidation, a recommendation of PC regarding the strategy and modalities of divestiture to be applied, based on a file prepared by DNMPPE, shall be submitted to CCEF for decision by the Council of Ministers. The PC, with the assistance of DNMPPE, shall implement the decision taken by the Council of Ministers.

(d) Buyers of assets or shares of the enterprises to be privatized or liquidated will not be given special privileges (like subsidies, credits, market protection etc.) under the Divestiture Program, other than those defined in the 1987 Investment Code or in the 1986 Mining Code, unless otherwise agreed to by the Association.

(e) With the exception of normal maintenance and repair works, the Borrower shall refrain from granting subsidies to or investing (including rehabilitation) in public enterprises that have been targeted for privatization in the Divestiture Program, unless otherwise agreed to by the Association.

(f) Shares in a public enterprise cannot be sold to another public enterprise, unless otherwise agreed to by the Association.

(g) At the Association's request, tender documents, bid evaluation reports as well as final privatization agreements for the sale of public enterprises shall be submitted to the Association for information.

(h) Privatization of a public utility has to be preceded by the entry into force of a sound regulatory framework for the relevant sector that is acceptable to the Association.

(i) The Borrower shall ensure that DNMPPE, the Ministry of Communications and OPG shall, no later than March 31, 1993, prepare a performance contract acceptable to the Association that defines the respective responsibilities of the Borrower and OPG, including the primary performance indicators for OPG. The Borrower and OPG shall enter into this performance contract no later than April 30, 1993.

(j) The Borrower shall ensure that DNMPPE, the Ministry of Communications and SOTELGUI shall, no later than September 30, 1992, prepare a schedule of conditions acceptable to the Association that

defines the regulatory framework of the activities of SOTELGUI. The Borrower and SOTELGUI shall agree upon this schedule of conditions no later than April 30, 1993.

(k) The Borrower shall ensure that DNMPPE, the Ministry of Natural Resources Energy and Environment and the Societe Anonyme that will replace OBK shall, no later than March 31, 1993, prepare a performance contract acceptable to the Association that defines the respective responsibilities of the Borrower and aforementioned Societe Anonyme, including the primary performance indicators for aforementioned Societe Anonyme. The Borrower and aforementioned Societe Anonyme shall enter into this performance contract no later than May 31, 1993.

3. The Borrower shall, for the purpose of Part A.3 of the Project, submit to the Association for its approval no later than December 31, 1992:

- (i) a detailed legal reform program; and
- (ii) the names and qualifications of trainees from the legal profession selected for training.

Following adoption of a legal reform program approved by the Association, the Borrower shall implement it without delay.

IV. Part B of the Project

1. The Borrower shall not establish new public enterprises without the prior approval of the Association.

2. The Borrower shall ensure that DNMPPE prepares an update to December 31, 1992 of the situation of existing cross-debts between the Borrower and public enterprises and between public enterprises as identified in the Coopers & Lybrand study of December 6, 1991, prior to March 31, 1993. On the basis of that update, the Borrower shall, no later than May 31, 1993, adopt a program to be prepared by DNMPPE for the liquidation of these cross-debts including a mechanism and time schedule for compensation and settlement thereof. Cross-debt that can be compensated will have to be liquidated no later than December 31, 1993, in accordance with aforementioned program. All other cross-debt will have to be liquidated in accordance with the aforementioned program.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) 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 Credit 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 \$500,000 to be withdrawn from the Credit 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 Association 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 Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association from the Credit 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit 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 Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from

the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association 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 Association, refund to the Association such outstanding amount.

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

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

