

CONFORMED COPY

LOAN NUMBER 3509 HU

(Product Market Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

NATIONAL BANK OF HUNGARY

Dated August 24, 1992

LOAN NUMBER 3509 HU

LOAN AGREEMENT

AGREEMENT, dated August 24, 1992, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NATIONAL BANK OF HUNGARY (the Borrower).

WHEREAS (A) Republic of Hungary (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 obtain grant funds from donors to assist in financing Part B of the Project on the terms and conditions to be set forth in grant agreements to be entered into between each donor and the Guarantor; 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 in Schedule 5 to this Agreement (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) "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;

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

(c) "Subsidiary Financing Agreement" means any agreement to be entered into between the Borrower and a Participating Bank pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time;

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

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

(f) "Sub-loan" means a loan made or proposed to be made out of the proceeds of the Loan to a Beneficiary for a Sub-project to finance (i) investment expenditures, or (ii) permanent working capital relating to inventories of raw materials, intermediate or finished goods required for efficient operations;

(g) "Beneficiary" means enterprises which are related to production and distribution of consumer goods and their components at intermediate stages of production to which a Participating Bank proposes to make or has made a Sub-loan;

(h) "Sub-project" means a specific project for establishment of new, or for improvement of existing, operations involving marketing, trade and distribution of consumer products;

(i) "Basic Law" means Law No. LX of 1991, of the Guarantor, on the National Bank of Hungary; and

(j) "Banking Law" means the Guarantor's Law No. LXIX of 1991.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred million Dollars (\$100,000,000), 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 the Project, open and maintain in its books in Dollars a special deposit account on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1998 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 March 1 and September 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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall: (i) take all action required on its part to cause the Project to be carried out by the Participating Banks and the Guarantor, respectively, in accordance with appropriate technical, administrative, financial and economic practices, and to enable the Participating Banks and the Guarantor to perform their respective obligations under the Subsidiary Financing Agreements and the Subsidiary Loan Agreement; (ii) provide, promptly as needed, the funds, facilities, services and other resources required for the purpose; and (iii) conduct its operations and affairs under the Project in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Basic Law.

(b) For the purpose of carrying out Part A of the Project, the Borrower shall make available to the Participating Banks the equivalent of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 under Subsidiary Financing Agreements to be entered into between the Borrower and the Participating Banks under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in Schedule 6 to this Agreement.

(c) For the purpose of carrying out Part B.1 of the Project, the Borrower shall make available to the Guarantor the equivalent in the currency of the Guarantor (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 for Part B.1 of the Project to be 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 15 years, inclusive of a grace period of five years, and (ii) pay interest on the principal amount so made available and withdrawn and outstanding from time to time at a rate set in conformity with the basic rate charged from time to time by the Borrower pursuant to the Basic Law.

(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 Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend,

abrogate or waive the Subsidiary Loan Agreement, any of the Subsidiary Financing Agreements, or any provisions thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and services required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall coordinate and monitor the overall execution 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.

Section 3.04. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part B.1 of the Project shall be carried out by the Guarantor pursuant to Section 3.05 of the Guarantee Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations, resources and expenditures, in respect of Part A of the Project.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of said accounts for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, and accounts 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.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that the Basic Law shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

- (a) at least two Subsidiary Financing Agreements have been signed on behalf of the Borrower and two eligible Participating Banks;

- (b) the Subsidiary Loan Agreement has been signed on behalf of the Guarantor and the Borrower; and

- (c) institutional arrangements, satisfactory to the Bank, have been made for the purpose of carrying out Part B.1 of the Project.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

- (a) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the Guarantor and is legally binding upon the Borrower and the Guarantor in accordance with its terms; and

- (b) that each of the Subsidiary Financing Agreements referred to in paragraph (a) of Section 6.01 of this Agreement has been duly authorized or ratified by the Borrower and the respective Participating Bank and is legally binding upon the Borrower and such Participating Bank in accordance with its terms.

Section 6.03. 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, the Deputy President or the General Manager of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General

Conditions.

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

For the Borrower:

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

Cable address:

BANKO
Budapest

Telex:

227267 SMAFU-H
225755 BANKO-H or
227028 BANKO-H

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kemal Dervis
Acting Regional Vice President
Europe and Central Asia

NATIONAL BANK OF HUNGARY

By /s/ Andras Horvai
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:

Amount of the Loan Allocated (Expressed in	% of Expenditures
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Category	Dollar Equivalent)	to be Financed
(1) Under Part A of the Project:	99,200,000	
(a) goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items, including related services, procured locally; 100% of foreign expenditures for technical licenses
(b) works		40%
(c) consultants' services		100%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(2) Under Part B.1 of the Project:	800,000	
(a) Consultants' services and training		100%
(b) equipment, including computer equipment and software		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
TOTAL	100,000,000 =====	

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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to strengthen the opera-

tional and pricing efficiency and the enabling environment of product markets so as to assist enterprises engaged in marketing, trade and distribution activities to establish efficient new operations or to improve the performance of existing operations.

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: Financial Assistance

The financing of Sub-loans by Participating Banks to Beneficiaries for Sub-projects aimed at establishing efficient new operations or improving the performance of existing operations related to marketing, trade and distribution activities.

Part B: Technical Assistance

1. Provision of services in logistics-related areas relating to the improvement of marketing, trade and distribution activities.
2. Training of commercial bank management and staff in evaluation and supervision of projects in the marketing, trade and distribution areas.
3. Improvement of the market information system.
4. Definition and supervision of standards and grades for products.
5. Supervision of the commodity exchanges.
6. Strengthening of the food quality control system.

* * *

The Project is expected to be completed by June 30, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 1 and September 1	
beginning March 1, 1998 through March 1, 2007	5,000,000
And on September 1, 2007	5,000,000

* 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	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods or 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. Contracts for works estimated to cost the equivalent of less than \$1,000,000, may be awarded following local competitive bidding procedures acceptable to the Bank.

2. Contracts for works estimated to cost the equivalent of less than \$500,000, may be awarded on the basis of price quotations solicited from at least three eligible contractors.

3. Contracts for goods estimated to cost the equivalent of less than \$1,000,000, may be purchased, in accordance with the normal commercial practices of the purchasers thereof, at reasonable prices, 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.

4. Goods and technical licenses which the Bank agrees: (a) are of proprietary nature; (b) the timely supply thereof is critical for efficient Project execution; or (c) need to be compatible with other installed equipment may be procured through direct negotiations with the proprietors thereof, on terms and conditions 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 \$2,000,000 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 Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank 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, 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 7 to this Agreement.

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

Modification of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

(1) The last sentence of Section 3.02 is deleted.

(2) 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."

SCHEDULE 6

Principal Terms and Conditions of the Subsidiary Financing Agreements

Except as the Bank and the Borrower shall otherwise agree, the principal terms and conditions set forth or referred to in this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement.

A. Terms

1. The aggregate amount to be made available by the Borrower to a Participating Bank under its respective Subsidiary Financing Agreement shall be equivalent in the currency of the Guarantor (determined as of the respective date or 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, works and services for the Sub-projects to be carried out under Sub-loans made by such Participating Bank and to be financed out of the proceeds of the Loan allocated from time to time to Category (1).

2. The Subsidiary Finance shall be charged on the principal

amount thereof withdrawn and outstanding from time to time interest at a rate of not less than the refinancing rate charged from time to time by the Borrower.

3. The Subsidiary Finance shall be charged on the principal amount thereof not withdrawn and outstanding from time to time a commitment fee at a rate equal to the commitment fee on the principal amount of the Loan not withdrawn and outstanding from time to time as set forth in Section 2.04 of this Agreement.

4. The Subsidiary Finance shall be for a period not exceeding fifteen years, including a grace period of five years.

5. The right of the Participating Bank to the use of the proceeds of its respective Subsidiary Finance shall be: (a) suspended for processing of new Sub-loans 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 paragraph (a) hereof for a continuous period of sixty days.

B. Conditions

A Subsidiary Financing Agreement may be entered into with a banking institution, duly established and operating under the laws of the Guarantor, which the Borrower shall have determined, and the Bank shall have agreed, that such institution:

- (a) (i) meets the prevailing prudential regulatory criteria, as required under the Banking Law;
 - (ii) is in good standing with the State Banking Supervision Agency (SBS);
 - (iii) has acceptable lending policies and procedures;
 - (iv) has competent management in an appropriate organization structure;
 - (v) is capable of appraising and supervising projects, engaging such technical assistance as necessary for the purpose; and
 - (vi) has undertaken external audits according to international auditing standards;
- (b) has undertaken to have its staff trained in evaluation of Sub-projects involving marketing, trade and distribution operations under the program to be established for the purpose of Part B.2 of the Project;
- (c) has adopted and undertaken to maintain suitable procedures to enable it effectively to:
- (i) (A) make Sub-loans to Beneficiaries for Sub-projects under Part A of the Project which fulfill the eligibility criteria and on the principal terms and conditions set forth in the Annex to this Schedule, (B) exercise its rights in relation to each such Sub-project in such manner as to protect its interests and the interests of the Bank and the Borrower, comply with its obligations under its respective Subsidiary Financing Agreement and achieve the purposes of Part A of the Project, and (C) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without the prior approval of the Borrower;
 - (ii) carry out its activities under Part A of the Project and conduct its operations and affairs

in accordance with appropriate financial standards and practices and in accordance with appropriate lending policies and procedures referred to in paragraph 1 (a) (iii) of this Part, appraise Sub-projects, and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, including the procurement of the goods and works therefor, in accordance with policies and procedures satisfactory to the Bank and the Borrower;

- (iii) exchange views with, and furnish all such information to, the Bank or the Borrower, as may be reasonably requested by the Bank or 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 Part A of the Project;
- (iv) promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Financing Agreement;

(d) has undertaken to: (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial conditions; (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 and the Borrower; (iii) furnish to the Bank, through the Borrower, as soon as available, but in any case not later than five months after the end of each such year: (A) certified copies of said financial statements and accounts for such years as so audited, and (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, through 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 TO SCHEDULE 6

Eligibility Criteria, Procedures, Principal Terms and Conditions of Sub-loans

A. Eligibility Criteria:

1. Sub-projects eligible for financing shall relate to marketing, trade and distribution activities of Beneficiaries including, but not limited to wholesaling, retailing, warehousing, packaging, materials handling and transportation, inventory management and control, and services related to those activities.

2. The following criteria shall apply for Beneficiaries and Sub-projects in respect of Sub-loans in excess of the equivalent of \$300,000:

(a) each Beneficiary shall have established to the satisfaction of the Participating Bank on the basis of guidelines satisfactory to the Bank that: (i) it is creditworthy; (ii) its projected cash generation or equity increases shall be sufficient to enable it to meet the expenditures required for the Sub-project; (iii) it is in a position to continue to maintain a current ratio not less than 1.3, a debt/equity ratio not exceeding 65/35, and a debt service coverage not less than 1.5; and (iv) it has prepared a sound business plan which would indicate its marketing arrangements, operations and financing arrangement;

(b) Sub-projects have a projected financial rate of return of at least 14 percent; and

(c) in case of financing of permanent working capital, demonstration that the needs arise from (i) a planned investment, or an investment undertaken not more than two years prior to the date of application for such financing, and (ii) will result in improvements in operations.

B. Procedures:

1. Each Sub-loan for an amount estimated to exceed the equivalent of \$5 million shall be made only after and to the extent the Sub-project shall have been approved by the Bank.

2. In case a proposed Sub-loan for a Sub-project requires, because of its complexity or technologies involved, for its proper evaluation expertise not available in the respective Participating Bank, such Participating Bank shall, before its approval, have the Sub-project evaluated by external experts and submit the report of such evaluation to the Bank together with the documentation to be submitted in accordance with paragraph 6 of this Part.

3. Sub-loans in the principal amount of \$300,000 or less shall be made only to those Beneficiaries who qualify on the basis of the applicable criteria of the respective Participating Bank for determining creditworthiness and Sub-project viability.

4. Without limitation upon the provisions of paragraphs B.1 through B.3 of this Section, the first two Sub-loans proposed by any Participating Bank, which has been involved in a previous operation financed by the Bank, and the first three Sub-loans proposed by any other Participating Bank are subject to prior approval by the Bank.

5. No expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Bank shall have received the request for approval or authorization in accordance with the provisions of paragraphs 1 through 4 of this Part.

6. Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a Sub-loan other than those approved in accordance with paragraph B.1 of this Part shall contain: (i) a summary description of the Beneficiary and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Sub-loans, including the schedule of amortization therefor.

7. The Participating Bank shall:

(a) open, by the date on which it shall receive the first payment of interest or other charges thereon, or repayment of principal under, a Sub-loan and thereafter maintain a separate account on its books in accordance with its normal financial practices and on conditions satisfactory to the Bank and the Borrower; and

(b) upon receipt of each such payment or repayments under each Sub-loan, credit the same to the said separate account. All amounts to be credited to the said separate account shall be utilized by the Participating Bank to the extent they are not yet required to meet the Participating Bank's payment obligations to the Borrower under its Subsidiary Financing Agreement, exclusively to finance projects similar to Sub-projects in accordance with the Participating Bank's lending and investment policies.

C. Terms:

1. The principal amount of each Sub-loan shall be the equivalent in the currency of the Guarantor (determined as of the date or

respective dates of withdrawals from the Loan Account or payments from the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of the goods, works or services for the Sub-project to be carried out under such Sub-loan and to be financed out of the proceeds of the Loan allocated from time to time to Category (1).

2. Sub-loans shall each be made by a Participating Bank for a period not exceeding ten years, including a grace period not exceeding three years, and on other terms, including those relating to interest and charges, which are in accordance with the lending and investment policy statement of such Participating Bank acceptable to the Bank.

3. The total amount of a Sub-loan, or Sub-loans, to a Beneficiary shall not exceed the equivalent of \$10,000,000 unless otherwise agreed by the Borrower and the Bank.

D. Conditions:

Each Participating Bank shall obtain, by written contract with the Beneficiary rights adequate to protect the interests of the Bank, the Borrower and the Participating Bank, including, where applicable that each Beneficiary shall undertake to:

(a) carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical and financial standards, to provide promptly, as needed, the funds, facilities and other resources required for the purpose, and to maintain adequate records;

(b) comply with all applicable environmental regulations of the Guarantor and obtain all necessary clearances;

(c) procure goods, works and services to be financed out of the proceeds of the Sub-loan under contracts awarded in accordance with the provisions of Schedule 4 to this Agreement;

(d) use such goods exclusively in the carrying out of the Sub-project;

(e) enable the Participating Bank, the Bank and the Borrower to inspect the sites, works, and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(f) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and

(g) (i) prepare and promptly furnish to the Participating Bank for forwarding to the Bank or the Borrower if so requested by the Bank or the Borrower, all such information as the Bank or the Borrower 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; (ii) 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, (iii) furnish to the Participating Bank, for forwarding to the Borrower or the Bank if so requested by the Borrower or 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 so audited, of such scope and in such detail as the Bank or the Borrower shall have reasonably requested, and (2) such other information concerning the accounts and records referred to in paragraph (e) hereof, as the Bank, the Borrower and the Participating Bank shall from time to time reasonably request; and (iv) ensure the right of the Participating Bank 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 with the Participating Bank providing for the Sub-loan.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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, works 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 \$6 million 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 Category, 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.

