

CONFORMED COPY

LOAN NUMBER 2834 HU

(Second Industrial Restructuring Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

NATIONAL BANK OF HUNGARY

Dated August 31, 1987

LOAN NUMBER 2834 HU

LOAN AGREEMENT

AGREEMENT, dated August 31, 1987 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NATIONAL BANK OF HUNGARY (the Borrower).

WHEREAS (A) the Bank has received the "Letter of Intent on the Development of Economic Conditions Concerning Industrial Restructuring in Hungary" dated May 6, 1986, and the letter on "Statement concerning the Development of Economic Conditions for Industrial Restructuring in Hungary" dated May 8, 1987, both from the Government of the Hungarian People's Republic describing a program of objectives, policies and actions designed to achieve structural adjustment of the industrial sector of the economy (the Program) of the Hungarian People's Republic (the Guarantor);

(B) 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;

(C) by the Guarantee Agreement of even date herewith between the Guarantor and the Bank, the Guarantor has declared its commitment to the execution of the Program and agreed to guarantee the obligations of the Borrower in respect of the Loan and to under-

take such other obligations as set forth in the Guarantee Agreement; and

WHEREAS on the basis, inter alia, of the foregoing, the Bank has decided, in support of the Program and in order to assist in the carrying out of the Project, 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 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 and in the Preamble to this Agreement 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 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(b) "Subsidiary Lending Agreement" means any agreement to be entered into between the Borrower and an Eligible Bank pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to such Subsidiary Lending Agreement;

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

(d) "Eligible Bank" means the Foreign Trade Bank, the National Savings Bank, the General Banking and Trust Company and any other banking institution designated as an eligible Bank for purposes of Part D of the Project by agreement between the Bank and the Borrower and with which the Borrower shall have entered into a Subsidiary Lending Agreement;

(e) "Participating Bank" means any banking institution which satisfies the conditions set forth in Part B of Schedule 7 to this Agreement and with which the Borrower shall have entered into a Subsidiary Financing Agreement;

(f) "Sub-loan" means a loan made or proposed to be made by a Participating Bank, out of the equivalent of the proceeds of the Loan made available to it by the Borrower, to a Beneficiary for a Restructuring Project or a Restructuring Study;

(g) "Beneficiary" means any enterprise or institute referred to in Part F of the Project and to which a Participating Bank proposes to make or has made a Sub-loan;

(h) "Restructuring Project" means a specific restructuring and development project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan;

(i) "Restructuring Study" means a study to prepare an integrated program for the improvement of the organization, management and operating systems of a Beneficiary to be carried out by such

Beneficiary utilizing the proceeds of a Sub-loan;

(j) "eligible industrial subsectors" means the plastics processing, rubber processing, agricultural machinery and food processing machinery subsectors of the Guarantor's industrial sector;

(k) "feeder industries" means industrial enterprises engaged in the production of intermediate goods for utilization by other industrial enterprises in their manufacturing operation;

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

(m) "Special Account A" and "Special Account B" mean the accounts referred to in Section 2.02 (b) of this Agreement;

(n) "Basic Law" means Law Decree No. 36 of 1967, of the Presidential Council of the Guarantor, as amended to the date of this Agreement;

(o) "Credit Policy Guidelines" means the guidelines regulating the provisions of credit by financial institutions in the Hungarian People's Republic as established by Resolution No. 1082 of 1986, of the Council of Ministers of the Guarantor;

(p) "Restructuring Council" means the Council established pursuant to the Resolution of the Economic Council of the Guarantor, dated October 3, 1985, and to be maintained in accordance with the provisions of Section 4.02 of the Guarantee Agreement;

(q) "Steering Committee" means the Committee established pursuant to the Resolution of the Economic Council of the Guarantor, dated October 3, 1985, and to be maintained in accordance with the provisions of Section 4.02 of the Guarantee Agreement; and

(r) "Restructuring Program Office" means the Office established pursuant to the Resolution of the Guarantor's Minister of Industry, dated July 26, 1985, as amended to the date of this Agreement, and to be maintained in accordance with the provisions of Section 4.02 of the Guarantee Agreement.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to one hundred and fifty million dollars (\$150,000,000).

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

(b) The Borrower shall, for the purposes of, respectively, (i) Part B of the Project, and (ii) Parts A and C through F of the Project, open and maintain on its books in dollars two special accounts to be designated, respectively, as Special Account A and Special Account B, on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, Special Account A and Special Account B shall be made in accordance with the provisions of Schedules 5 and 6 to this Agreement, respectively.

Section 2.03. The Closing Date shall be June 30, 1994 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 per cent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent ( $1/2$  of 1%) per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out or cause to be carried out the Project and conduct its operations and affairs with due diligence and efficiency and in conformity with appropriate technical, administrative, economic and financial standards and practices, with qualified management and staff and in accordance with the Basic Law and the Credit Policy Guidelines, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) For the purpose of carrying out Part A 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 B) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services for Part A of the Project and to be financed out of the proceeds of the Loan allocated from time to time to Category (1) 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 three years; and (ii) pay interest on the principal amount so made available and withdrawn and outstanding from time to time at a rate equal at least to (A) the rate of interest applicable from

time to time to the Loan pursuant to Section 2.05 of this Agreement, and (B) an additional charge equal to twenty percent (20%) of the amounts to be paid pursuant to subparagraph (ii)(A) hereof.

(c) For the purpose of carrying out Part D of the Project, the Borrower shall make available to the Eligible Banks 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 B) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and Consultants' services, on the basis of a list of such goods and services approved by the Bank for procurement by each such Eligible Bank in accordance with the provisions of Sections II and III of Schedule 4 to this Agreement, to be financed out the proceeds of the Loan allocated from time to time to Category (4) under subsidiary lending agreements to be entered into between the Borrower and each such Eligible Bank, under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, terms pursuant to which such Eligible Bank shall undertake to: (i) repay the principal amount so made available over a period of not more than ten years, inclusive of a grace period of not more than three years; and (ii) pay interest to the Borrower on the principal amount so made available and withdrawn and outstanding from time to time at a rate equal at least to: (A) the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, and (B) an additional charge equal to twenty percent (20%) of the amounts to be paid pursuant to subparagraph (ii) (A) hereof.

(d) For the purpose of carrying out Parts E and F of the Project, the Borrower shall make available to the Participating Banks the equivalent of the proceeds of the Loan referred to in Part A.1 of Schedule 7 to this Agreement under subsidiary financing agreements to be entered into between the Borrower and each of 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 7 to this Agreement.

Section 3.02. The Borrower shall:

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

(b) ensure that, except as the Bank shall otherwise agree: (i) not more than one Sub-loan shall be made to any one Beneficiary under Part F (1) of the Project; and (ii) the aggregate amount of all Sub-loans made by the Participating Banks, or any one Participating Bank, shall not exceed (A) the equivalent of \$10,000,000 to any one Beneficiary under Part F (2) (a) of the Project and \$4,000,000 to any one Beneficiary under Part F (2) (b) of the Project, and (B) when added to any other amount financed or proposed to be financed out of the proceeds of any other loan provided for by the Bank in any outstanding loan agreement between the Bank and the Borrower, the proceeds of which have been or are being used for financing goods and services directly and materially related to a Restructuring Project or a Restructuring Study to be financed under such Sub-loans, the equivalent of \$200,000 for any one Restructuring Study under Part F (1) of the Project, \$5,000,000 for any one Restructuring Project under Part F (2) (a) of the Project and \$2,000,000 for any one Restructuring Project under Part F (2) (b) of the Project.

(c) without limitation or restriction upon any of its other obligations under the Loan Agreement, take all action, including the provision of funds, facilities, services or other resources, necessary or appropriate to enable the Participating Banks and the Eligible Banks to perform in accordance with the provisions of their respective Subsidiary Financing and Subsidiary Lending

Agreements all the obligations of such Banks therein set forth, and not take any action which would prevent or interfere with such performance; and

(d) exercise its rights under the Subsidiary Loan Agreement, the Subsidiary Financing Agreements and the Subsidiary Lending 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, not assign, amend, abrogate or waive any such Agreement or any provision thereof.

Section 3.03. The Borrower shall, in order to assist it in carrying out:

(a) Part C of the Project, employ consultants with qualifications and experience and under terms of reference satisfactory to the Bank; and

(b) its obligations pursuant to Sections 9.06 and 9.07 of the General Conditions (relating to plans and schedules, and records and reports, respectively), maintain arrangements, satisfactory to the Bank, with the Restructuring Program Office.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods, licenses and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.05. 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, use of goods and services, plans and schedules, records and reports and maintenance, respectively) shall be carried out in respect of Part A of the Project by the Guarantor pursuant to Section 3.04 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 the Project.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section and the records and accounts for the Special Account A, the Special Account B and the account 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 five 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 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 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 may otherwise agree, the Borrower shall:

(a) open, by the date on which it shall receive the first payment of interest or other charges on, or repayment of principal under, the Subsidiary Loan Agreement, any of the Subsidiary Financing Agreements, or any of the Subsidiary Lending Agreements, and thereafter maintain a separate account on its books in accordance with its normal financial practices and on conditions satisfactory to the Bank; and

(b) upon receipt of each such payment or repayment under each such Agreement, credit the same to the said separate account. All amounts so credited to the said separate account shall be utilized by the Borrower, to the extent they are not yet required to meet the Borrower's repayment obligations to the Bank under this Agreement, exclusively to finance the further restructuring and development of industrial enterprises in accordance with the Credit Policy Guidelines and on the basis of criteria satisfactory to the Bank.

#### ARTICLE V

##### Remedies of the Bank

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

(a) The Basic Law or the Credit Policy Guidelines 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.

(b) An event shall have occurred which shall make it improbable that the Program, or a significant part thereof, will be carried out.

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 paragraph (a) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as addi-

tional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and the Guarantor; and

(b) that at least two Subsidiary Financing Agreements have been executed on behalf of the Borrower and two Participating Banks.

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 (b) of Section 6.01 of this Agreement has been duly authorized or ratified by the Borrower and a Participating Bank and is legally binding upon the Borrower and a 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 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:

440098 (ITT),  
248423 (RCA) or  
64145 (WUI)

For the Borrower:

National Bank of Hungary  
H-1850 Budapest  
Szabadsag ter 8-9  
Hungarian People's Republic

Cable address:

BANKO  
Budapest

Telex:

227267 SMAFU-H  
275755 BANKO-H

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/ Eugenio F. Lari  
Acting Regional Vice President  
Europe, Middle East and North Africa

NATIONAL BANK OF HUNGARY

By /s/ Ferenc Horvath  
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<br>Loan Allocated<br>(Expressed in<br>Dollar Equivalent) | % of<br>Expenditures<br>to be Financed  |
|---|--|---|
| (1) Goods, consultants' services and training for Part A of the Project | 5,000,000  | 100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods and 100% of foreign expenditures for consultants' services and training |
| (2) Goods for Part B of the Project                                     | 40,000,000   | 100% of foreign expenditures  |
| (3) Goods, consultants' services and training for Part C of the Project | 2,000,000  | 100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods and 100% of foreign expenditures for consultants' services and training |
| Category  | Amount of the<br>Loan Allocated<br>(Expressed in<br>Dollar Equivalent) | % of<br>Expenditures<br>to be Financed  |
| (4) Goods and consultants' services for Part D of the Project           | 500,000  | 100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for   |

|     |  |  |   |
|-----|--|--|---|
|     |  | goods and 100% of foreign expenditures for consultants' services |   |
| (5) | Consultants' services and training for Part E of the Project   | 700,000  | 100% of foreign expenditures  |
| (6) | Goods, consultants' services, technical licenses and training: |  | 100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods and 100% of foreign expenditures for consultants' services, technical licenses and training |
|     | (a) for Part F (1) of the Project                              | 1,800,000  |   |
|     | (b) for Part F (2) (a) of the Project                          | 44,000,000   |   |
|     | (c) for Part F (2) (b) of the Project                          | 46,000,000   |   |
| (7) | Unallocated  | 10,000,000   |   |
|     | TOTAL  | 150,000,000  |   |

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:

(a) payments made for expenditures prior to the date of this Agreement;

(b) expenditures under Category (2) except: (i) for expenditures on account of the import by industrial enterprises of goods described in the Annex to this Schedule; and (ii) on the basis of a certification by the Borrower that such goods are not supplied under a contract which any national or international financing institution or agency, other than the Bank, shall have financed or agreed to finance;

(c) expenditures under Category (4) by an Eligible Bank until evidence satisfactory to the Bank shall have been received by the Bank that a Subsidiary Lending Agreement has been executed on behalf of, and is legally binding upon, the Borrower and such Eligible Bank; and

(d) expenditures under Categories (5) and (6) by a Participating Bank or by a Beneficiary under a Sub-loan made by such Participating Bank, until evidence satisfactory to the Bank shall have been received by the Bank that a Subsidiary Financing Agreement has been executed on behalf of, and is legally binding upon, the Borrower and such Participating Bank.

#### ANNEX TO SCHEDULE 1

Goods to be financed under Category (2)

Further to the provisions set forth or referred to in

Schedule 1 to this Agreement, withdrawals of the proceeds of the Loan allocated from time to time to Category (2) shall be made in respect of expenditures by enterprises on account of the import of goods included in the following Heading numbers of the year 1985-1986 English version of the Hungary's Bulletin International des Douanes, Number 192 (8th Edition), published by the International Customs Tariffs Bureau:

| Heading No.         | Description of Goods                              |
|---------------------|---|
| 27.01               | Coal  |
| 39                  | Artificial resins, plastic materials and products |
| 40                  | Rubber, synthetic rubber and articles thereof     |
| 73.09 through 73.16 | Flat and non-flat finished steel products.        |

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to (1) implement industrial policy and institutional reforms to facilitate the execution of the Program, and (2) restructure and further develop the eligible industrial subsectors and feeder industries.

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

#### Part A:

(1) The carrying out of a program to strengthen the organizations and capacities of the agencies, institutions and other entities involved in the formulation and execution of the Program, including the design and application of a suitable tax information system and the provision of studies to develop appropriate strategies for the application of policies under the Program, staff training, equipment and computer hardware and software.

(2) The carrying out, through the Steering Committee, of (a) a study to prepare a program for the further development of feeder industries, and (b) an analysis of selected priority industrial subsectors and the identification of suitable strategies for their further development.

(3) The strengthening of the functions of research and engineering institutes providing quality control, product testing and research and engineering services to the eligible subsectors, including the provision of staff training and equipment.

(4) The carrying out, with the assistance of the Restructuring Program Office, of a program to (a) appraise the technical feasibility of, and supervise the procurement of goods and services for, the Restructuring Projects, and (b) promote the preparation of, and evaluate, the integrated restructuring programs of the Beneficiaries.

#### Part B:

The carrying out of a program for the financing, through the sale of foreign exchange by the Borrower, of urgently needed imports by enterprises resulting from the elimination of uneconomic lines of production and the expansion of economic ones under the Program.

Part C:

(1) The carrying out of a study for the setting up of a payment and clearing center for the Guarantor's banking sector.

(2) The design and carrying out of a program for the further development of the information system of the Borrower, including the provision of equipment and staff training.

Part D:

The strengthening of the management organization and the data processing operations of the Eligible Banks, including the provision of equipment.

Part E:

The design and carrying out of a program to strengthen the organization, management and operations of the Participating Banks, including the provision of staff training.

Part F:

The financing, through the provision of loans, including Sub-loans, by Participating Banks out of the proceeds of funds to be made available to them by the Borrower, including those referred to in Section 3.01 (d) of this Agreement:

(1) of studies to prepare integrated programs for improving the product and market strategy, organization, management and operating systems of industrial enterprises; and

(2) of specific restructuring and development projects for the upgrading and expansion of the facilities and the strengthening of the organization, management and operations of (a) enterprises and institutes operating within the eligible industrial subsectors or supporting the operations of said subsectors through the provision of quality control and testing, research, development and engineering, technical and market information and export promotion services, and (b) industrial enterprises engaged in the production of intermediate goods for utilization by other industrial enterprises in their manufacturing operations.

\* \* \*

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

| Date Payment Due                                       | Payment of Principal<br>(expressed in dollars)* |
|--|---|
| On each February 15 and August 15                      |   |
| beginning February 15, 1991<br>through August 15, 2002 | 6,250,000                                       |

\* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

| Time of Prepayment | Premium                |
|--------------------|------------------------|
|                    | The interest rate (ex- |

pressed as a percentage per annum) applicable to the balance outstanding on 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 eleven years before maturity      | 0.73 |
| More than eleven years but not more than thirteen years before maturity | 0.87 |
| More than thirteen years before maturity                                | 1.00 |

#### SCHEDULE 4

##### Procurement and Consultants' Services

##### Section I. Procurement of Goods to be Financed under Category (2)

##### Part A: Procurement Procedures

1. Contracts for the procurement of goods estimated to cost the equivalent of \$3,000,000 or more each shall be awarded through international competitive bidding 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), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

##### "2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for goods estimated to cost the equivalent of less than \$3,000,000 each shall be awarded on the basis of the normal procurement procedures of the purchaser of such goods on the basis of comparison of price quotations solicited from at least three suppliers eligible under the Guidelines.

Part B: Review by the Bank of Procurement Decisions

1. With respect to each of the first three contracts to be procured pursuant to paragraph 1 of Part A of this Section, 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 A, 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 A in respect of such contracts.

2. With respect to each contract referred to in paragraph 1 of Part A of this Section and not governed by the preceding paragraph 1 of this Part, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contracts, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

3. With respect to each contract referred to in paragraph 2 of Part A of this Section, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

4. Notwithstanding the provisions of paragraphs 2 and 3 of this Part, where payments under a contract are to be made out of the proceeds of the Special Account A, the copies of such contract or the documentation and the information to be furnished to the Bank pursuant to the provisions of said paragraph 2 or paragraph 3 as the case may be, shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

5. The provisions of paragraphs 1 through 4 of this Part shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

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

Section II. Procurement of Goods to be Financed under Categories (1) and (3) through (6)

Part A: International Competitive Bidding

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.

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. Goods and technical licenses which the Bank agrees: (a) are of a proprietary nature, or (b) the timely supply thereof is critical for efficient Project execution, may be procured through direct negotiations with the suppliers of such goods and licenses, on terms and conditions satisfactory to the Bank.

2. (a) Goods and technical licenses which the Bank agrees are supplied through a limited number of sources, and (b) goods estimated to cost less than the equivalent of \$1,000,000 per contract, up to an aggregate amount not to exceed the equivalent of \$40,000,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from at least three qualified suppliers from at least three countries eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

3. Goods which are estimated to cost less than the equivalent of \$50,000 per contract and in the aggregate not more than the equivalent of \$5,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Bank.

#### Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to (i) each of (A) the first three contracts to be financed under Category 6 (b), and (B) the first three contracts to be financed under Category 6 (c), and estimated to cost less than the equivalent of \$1,000,000 and (ii) each contract estimated to cost the equivalent of \$1,000,000 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 B, 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 B in respect of such contracts.

(b) With respect to each contract not governed by the preceding subparagraph, 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 B, 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 Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

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

#### Section III. 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

##### Special Account A

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (2);

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

(c) the term "Authorized Allocation" means an amount equivalent to \$15,000,000 to be withdrawn from the Loan Account and deposited in Special Account A pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of Special Account A 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 A has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account A may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account A such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Special Account A at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account A with amounts not exceeding the amount of payments made out of the Special Account A for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the eligible Category, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account A for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account A shall be made by the Bank when either of the following situations first arises:

(i) the Bank shall have determined that all further withdrawals should be made directly by the Borrower from the Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement; or



(ii) the total unwithdrawn amount of the Loan allocated to Categories (1) through (6), minus 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 be equal to the equivalent of \$40,000,000.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Category 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 A as of the date of such notice have been or 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 A (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, deposit into the Special Account A (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. No further deposit by the Bank into the Special Account A shall be made until the Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account A 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 for crediting to the Loan Account.

#### SCHEDULE 6

##### Special Account B

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (3) through (6);

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods required for Parts A, C, D, E and F of 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 the Annex thereto; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited in Special Account B pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of Special Account B 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 B has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account B may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account B such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for

replenishment of the Special Account B at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account B with amounts not exceeding the amount of payments made out of the Special Account B for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the eligible Category, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account B for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account B shall be made by the Bank when either of the following situations first arises:

- (i) the Bank shall have determined that all further withdrawals should be made directly by the Borrower from the Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Parts A, C, D, E and F of the Project, shall be equivalent of twice the amount of the Authorized Allocation.

(b) 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 B as of the date of such notice have been or 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 B (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, deposit into the Special Account B (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. No further deposit by the Bank into the Special Account B shall be made until the Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account B 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 for crediting to the Loan Account.

#### SCHEDULE 7

#### 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 in this Schedule

shall apply for the purposes of Section 3.01 (d) 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 (the Subsidiary Finance) shall be the 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 B) of the value of the currency or currencies so withdrawn or paid out on account of the cost of:

(a) the consultants' services and training to be financed out of the proceeds of the Loan allocated from time to time to Category (5) for such Participating Bank under Part E of the Project (Part A of the Subsidiary Finance); and

(b) the goods, consultants' services, technical licenses and training to be financed out of the proceeds of the Loan allocated from time to time to Category (6) for Restructuring Projects and Restructuring Studies under Sub-loans made by such Participating Bank under Part F of the Project (Part B of the Subsidiary Finance).

2. The Subsidiary Finance shall be charged, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate equal at least to: (a) the rate of interest applicable from time to time to the Finance pursuant to Section 2.05 of this Agreement; and (b) an additional charge equal to twenty percent (20%) of the amounts to be paid pursuant to subparagraph (a) hereof.

3. The Subsidiary Finance shall be repaid in accordance with an amortization schedule pursuant to which:

(a) Part A thereof shall have a maturity of not more than ten years, inclusive of a grace period of not more than three years; and

(b) each portion of Part B 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.

4. Except as the Bank shall otherwise agree, the right of a Participating Bank to the use of the proceeds 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 subparagraph (a) hereof for a continuous period of forty-five 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, on the basis of an appropriate review, and the Bank shall have agreed, that such institution:

1. has a sound financial structure and the lending and investment policy, organization, management, staff and other resources required for the efficient carrying out of its operations and affairs, and has undertaken to carry out the same in accordance with its lending and investment policy and sound financial standards and practices;

2. has undertaken to provide, promptly as needed, the funds, facilities, services and other resources required for the carrying out of Parts E and F of the Project and has adopted and undertaken to maintain suitable procedures to enable it effectively to:

(a) appraise the financial and economic feasibility of Restructuring Projects and make Sub-loans to Beneficiaries for Restructuring Projects and Restructuring Studies in accordance with its lending and investment policy and on the basis of the criteria, procedures and principal terms and conditions set forth in the Annex to this Schedule;

(b) supervise, monitor and report on the carrying out by Beneficiaries of the Restructuring Projects and Restructuring Studies, including the procurements of the goods and services therefor, and on the carrying out by such Beneficiaries of their respective integrated restructuring programs referred to in paragraph 1 (b) (ii) of Part C of the Annex to this Schedule in accordance with policies and procedures satisfactory to the Bank and the Borrower; and

(c) exercise its rights under its agreements providing for Sub-loans, in such a manner as to protect the interests of the Bank and the Borrower, comply with its obligations under its Subsidiary Financing Agreement and achieve the purposes of Part F of the Project;

3. has undertaken not to assign, amend, abrogate or waive any of its agreements providing for Sub-loans or any provision thereof without the prior approval of the Borrower;

4. has developed and undertaken to: (a) carry out a program, acceptable to the Bank and the Borrower, for the further strengthening of its organization, management and operations under Part E of the Project; and (b) as may be determined necessary by the Borrower, employ consultants with qualifications and experience and under terms of reference satisfactory to the Bank and the Borrower, to assist it in the carrying out of the said program;

5. has concluded and undertaken to maintain arrangements, satisfactory to the Bank and the Borrower, with the Restructuring Program Office to assist such Participating Bank in: (a) appraising the technical and market feasibility of Restructuring Projects and evaluating the integrated restructuring programs of the Beneficiaries in accordance with the provisions of the Annex to this Schedule; and (b) carrying out the supervision, monitoring and reporting activities in accordance with the provisions of paragraph 2 (b) hereof;

6. has undertaken to procure the consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Section III of Schedule 4 to this Agreement and use such services exclusively for the purposes of Part E of the Project; and

7. has undertaken to (a) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial conditions, (b) 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, (c) furnish to the Borrower as soon as available, but in any case not later than five 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 or the Borrower shall have reasonably requested, and (d) furnish to the Borrower such other information concerning said accounts, financial statements and records, as well as the audit thereof, as the Bank or the Borrower shall from time to time reasonably request.

#### ANNEX TO SCHEDULE 7

Restructuring Projects, Restructuring Studies  
and Sub-loans; Criteria, Procedures and  
Principal Terms and Conditions

Subject to the provisions of Section 3.02 (b) of the Loan Agreement and except as the Bank and the Borrower shall otherwise agree, the criteria, procedures and principal terms and conditions set forth in this Annex shall apply for the purposes of Part B 2 (a) of Schedule 7 to this Agreement.

A. 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 withdrawal from the Loan Account or payment out of the Special Account B) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods, consultants' services, technical licenses and training (the goods and services) to be financed out of the proceeds of the Loan allocated from time to time to Category (6).

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

B. Conditions of Sub-loans under Part F (1) of the Project:

Sub-loans shall be made:

1. to Beneficiaries who each shall have satisfied the eligibility conditions set forth in paragraph 1 (b) (i) (B) of Part C of this Annex, for the financing of consultants' services to assist in carrying out a Restructuring Study; and

2. on terms whereby the Participating Bank shall obtain, by written contract or other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including that each Beneficiary shall: (a) carry out the Restructuring Study with due diligence and efficiency and in accordance with appropriate practices; (b) use the consultants' services financed out of the proceeds of the Loan exclusively in the carrying out of the Restructuring Study; and (c) prepare and furnish to the Participating Bank all such information as the Bank or the Borrower shall reasonably request relating to the foregoing.

C. Conditions of Sub-loans under Part F (2) of the Project:

1. Sub-loans shall be made:

(a) for Restructuring Projects (i) whose technical feasibility shall have been established to the satisfaction of the Restructuring Program Office, and (ii) which are each calculated by the Participating Bank to have financial and economic rates of return of at least 18%, all as shall be established and calculated on the basis of appraisals carried out in accordance with guidelines satisfactory to the Bank;

(b) to Beneficiaries which each shall have (i) established, to the satisfaction of the Participating Bank on the basis of guidelines satisfactory to the Bank, that (A) its projected internal cash generation or equity increases shall be sufficient to enable it to meet its share of the estimated expenditures required for the carrying out of the Restructuring Project, and (B) it is in a position to maintain a debt to equity ratio of not more than 65:35, a debt service coverage ratio of not less than 1.5:1, and a ratio of current assets to current liabilities of not less than 1.3:1; and (ii) developed and adopted an integrated restructuring program, acceptable to the Restructuring Program Office on the basis of guidelines satisfactory to the Bank, which shall include the improvement of such Beneficiary's product and market strategy, organization, management and operating systems; and

(c) (i) under Part F (2) (a) of the Project, to Beneficiaries operating within the eligible industrial subsectors with at least 30% of the sales revenues of each such Beneficiary derived from its operations within said subsectors, and (ii) under Part F (2) (b) of the Project, to Beneficiaries with at least 70% of each such Beneficiary's output being sold to other industrial enterprises all as shall be determined to the satisfaction of Participating Bank on the basis of guidelines satisfactory to the Bank.

2. No expenditures for goods or services required for a Restructuring Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Restructuring Project shall have been approved by the Bank and such expenditures shall have been made not earlier than one hundred and twenty days prior to the date on which the Bank shall have received the application and information required under paragraph 3 (a) of this Part in respect of such Sub-loan; or

(b) the Sub-loan for such Restructuring Project shall have been a free-limit Sub-loan for which the Bank shall have authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than one hundred and twenty days prior to the date on which the Bank shall have received the request and information required under paragraph 3 (b) of this Part in respect of such free-limit Sub-loan. For the purposes of this Annex, a free-limit Sub-loan shall be a Sub-loan, other than the first two Sub-loans to be made by each Participating Bank under each of subparts (a) and (b) of Part F (2) of the Project, for a Restructuring Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$2,000,000 equivalent.

3. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the Participating Bank shall furnish to the Borrower for submission to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Beneficiary; (ii) the appraisal of the Restructuring Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (iii) the integrated restructuring program of the Beneficiary referred to in paragraph 1 (b) (ii) of this Part and the time schedule for its implementation; (iv) the proposed terms and conditions of the Sub-loan, including the schedule of amortization thereof and (v) such other information as the Bank shall reasonably request.

(b) Each request for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain (i) a summary description of the Beneficiary and the Restructuring Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) a description of the integrated restructuring program of the Beneficiary referred to in paragraph 1 (b) (ii) of this Part and the time schedule of its implementation; and (iii) the terms and conditions of the Sub-loan, including the schedule of amortization thereof.

4. Sub-loans shall be made on terms whereby the Participating Bank shall obtain, by written contract or other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including:

(a) that each Beneficiary shall undertake to: (i) carry out and operate the Restructuring Project with due diligence and efficiency and in accordance with safety, health and environmental standards, satisfactory to the Bank, and with sound technical, financial and managerial standards and practices 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 Sections II and III of Schedule 4 to this Agreement,

and use such goods and services exclusively in the carrying out of the Restructuring Project; (iii) employ, in order to assist it in the implementation of its respective integrated restructuring program referred to in paragraph 1 (b) (ii) of this Part and to the extent determined required by the Participating Bank, consultants whose qualifications, experience and terms of reference shall be satisfactory to the Bank and the Borrower, and carry out said program in such a manner as to achieve the purposes thereof; (iv) enable the Bank and the Borrower to inspect such goods and the sites and works included in the Restructuring Project, the operation thereof, and any relevant records and documents; (v) take out and maintain 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; (vi) maintain the debt to equity and debt service coverage ratios and the ratio of current assets to current liabilities as specified in paragraph 1 (b) (i) (B) of this Part; (vii) prepare and furnish to the Participating Bank all such information as the Bank or the Borrower shall reasonably request relating to the foregoing, to its administration, operations and financial condition and to the benefits to be derived from the Restructuring Project; and (viii) (A) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition, (B) 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, (C) furnish to the Participating Bank as soon as available, but in any case not later than five 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 or the Borrower shall have reasonably requested, and (D) furnish to the Participating Bank such other information concerning said accounts, financial statements and records, as well as the audit thereof, as the Bank or the Borrower shall from time to time reasonably request; and

(b) provisions to 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.

