

CONFORMED COPY

LOAN NUMBER 2913 KO

(Third Technology Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

KOREA TECHNOLOGY DEVELOPMENT CORPORATION

Dated April 1, 1988

LOAN NUMBER 2913 KO

LOAN AGREEMENT

AGREEMENT, dated April 1, 1988, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and KOREA TECHNOLOGY DEVELOPMENT CORPORATION (the Borrower), a statutory body established and operating under the laws of the Republic of Korea.

WHEREAS (A) Republic of Korea (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; 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 4 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 and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Act" means the Korea Technology Development Corporation Act of the Guarantor dated December 31, 1980 (Law No. 3312), as amended to the date of this Agreement;

(b) "Decree" means the Enforcement Decree of the Korea Technology Development Corporation Act, promulgated on April 22, 1981, by Presidential Decree No. 10292, as amended to the date of this Agreement;

(c) "By-laws" means the Articles of Incorporation of the Korea Technology Development Corporation, dated April 28, 1981, as amended to the date of this Agreement;

(d) "Operating Manual" means the manual of operational policies approved by the Board of Directors of the Borrower on November 19, 1987 relating to the business of technological development of the industrial sector through investments and loans;

(e) "Institutional Policy Statement" means the statement referred to in Section 3.05 of this Agreement;

(f) "Lending Rules" means the Rules on Lending and Equity Participation adopted by the Borrower on June 20, 1981;

(g) "KTIC" means Korea Technology Investment Corporation, a subsidiary of the Borrower;

(h) "Sub-loan" means a loan made or proposed to be made by the Borrower or KTIC out of the proceeds of the Loan to an Investment Enterprise for an Investment Project;

(i) "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 2 (b) of Schedule 5 to this Agreement;

(j) "unqualified free-limit Sub-Loan" means a sub-loan, as so defined, in accordance with the provisions of paragraph 2 (c) of Schedule 5 to this Agreement;

(k) "Investment" means an investment, other than a Sub-loan, made or proposed to be made by the Borrower or KTIC out of the proceeds of the Loan in an Investment Enterprise for an Investment Project;

(l) "Lease" means a lease operation referred to in Article 2 (4) of the Decree;

(m) "Investment Enterprise" means an enterprise to which the Borrower or KTIC proposes to make or has made a Sub-loan or in which it proposes to make or has made an Investment or with which it proposes to enter or has entered into a Lease arrangement;

(n) "Investment Project" means a specific development

project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan or Investment or Lease;

(o) "Conditional Loan" means a loan made under the Borrower's conditional lending authority specified in Article 3 (2) of the Act;

(p) "Conventional Loan" means a loan made under the Borrower's conventional lending authority specified in Article 3 (1) of the Act;

(q) "Small and Medium Company" means an enterprise which meets the criteria set forth or referred to in the Small and Medium Industry Basic Act (Act No. 1840 dated December 6, 1966) of the Guarantor, as amended to the date of this Agreement;

(r) "Large Company" means a company other than a Small and Medium Company;

(s) "Subsidiary" means any company of which a majority of the outstanding voting stock or other proprietary interest is owned or effectively controlled by the Borrower or by any one or more subsidiaries of the Borrower or by the Borrower and one or more of its subsidiaries;

(t) "W" and "Won" mean the currency of the Guarantor;

(u) "Foreign currency" means any currency other than the currency of the Guarantor; and

(v) "Special Account" means the account to be opened and thereafter maintained pursuant to Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to fifty million dollars (\$50,000,000).

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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower or KTIC on account of withdrawals made by an Investment Enterprise under a Sub-loan, Investment or a Lease to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested; and (ii) 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 Part B of the Project 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 dollars a special account in the Korea Exchange Bank 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 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1992 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 per annum for each Interest Period equal to one-half of one percent 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 semi-annually on January 15 and July 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; Management and Operations of the Borrower

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Act, the Decree, the By-laws, the Operating Manual, the Institutional Policy Statement and the Lending Rules.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Sub-loans, Investments and Lease will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. For the purpose of relending by KTIC for Investment Projects the Borrower may make available from the proceeds of the Loan an amount not exceeding the equivalent of \$3,000,000 to KTIC on terms and conditions identical to the terms and conditions on which the Bank has made the Loan available to the Borrower.

Section 3.04. The Borrower shall duly perform all its obligations in agreements under which funds have been lent or otherwise put at the disposal of the Borrower by the Guarantor or its agencies or others for relending, investment or management. The Borrower shall promptly inform the Bank of any action which would have the effect of assigning, or of amending, abrogating or

waiving any material provision of, any such agreement.

Section 3.05. The Borrower shall adopt the Institutional Policy Statement agreed upon between the Bank and the Borrower.

Section 3.06. The Borrower shall, not later than the end of its fiscal year, exchange views with the Bank on its annual programs and targets with particular reference to:

- (i) KTIC's operational and financial plans;
- (ii) the Borrower's staff development and training programs;
- (iii) portfolio with Small and Medium Companies;
- (iv) portfolio monitoring system;
- (v) risk-sharing financial instruments;
- (vi) resource mobilization;
- (vii) financial performance, including the Borrower's policy on dividends; and
- (viii) the Borrower's interest rate policy.

Section 3.07. The Bank and the Borrower hereby agree to the deletion of paragraphs (c) and (d) of Section 2.10 of the Loan Agreement (Second Technology Development Project) dated November 1, 1984 between the Bank and the Borrower.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain and cause KTIC to maintain, records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it), and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower and KTIC.

Section 4.02. (a) The Borrower shall, and shall cause KTIC to:

- (i) have the records referred to in Section 4.01 of this Agreement and the accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than four months after the end of each such year, (A) certified copies of said financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) 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 Section 4.01 of this Agreement, 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 (a) 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 4.03. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.04. Except as the Bank shall otherwise agree, after periodic reviews of the Borrower's financial position, the Borrower shall not incur or permit any subsidiary to incur any debt if, after the incurring of such debt, the consolidated debt of the Borrower and all its subsidiaries then incurred and outstanding would be greater than six times the consolidated capital and surplus of the Borrower and all its subsidiaries. For the purposes of this Section:

(a) "debt" means any debt incurred by the Borrower or any subsidiary maturing more than one year after the date on which it is originally incurred;

(b) debt shall be deemed to be incurred: (i) under a loan contract or agreement (including the Loan Agreement and any prior Loan Agreement) on the date and to the extent the amount of the loan is drawn down and outstanding pursuant to such loan contract or agreement; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding;

(c) whenever in connection with this Section it shall be necessary to value in terms of Won debt payable in foreign currency, such valuation shall be made at the prevailing lawful rate of exchange at which such foreign currency is, at the time of such valuation, obtainable by the Borrower for the purposes of servicing such debt;

(d) "consolidated debt of the Borrower and all its subsidiaries" means the total amount of debt of the Borrower and its subsidiaries, excluding: (i) any debt owed by the Borrower to any subsidiary or by any subsidiary to the Borrower or to any other subsidiary; and (ii) the debt guaranteed by the Borrower pursuant to the Act or the Decree; and

(e) "consolidated capital and surplus of the Borrower and its subsidiaries" means the aggregate of the unimpaired paid-up capital, surplus and free reserves of the Borrower and its subsidiaries after excluding therefrom such amounts as shall represent equity interests of the Borrower in any subsidiary or of any subsidiary in the Borrower or any other subsidiary.

ARTICLE V

Remedies of the Bank

Section 5.01. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified:

(a) any part of the principal amount of any loan to the Borrower having an original maturity of one year or more shall, in accordance with its terms, have become due and payable in advance of maturity as provided in the relative contractual instruments, or any security for any such loan shall have become enforceable;

(b) a change shall have been made in the Act, the Decree or the By-laws which would materially and adversely affect the operations or the financial condition of the Borrower;

(c) a change shall have been made in the Operating Manual, the Institutional Policy Statement or the Lending Rules without the Bank's consent; and

(d) a resolution shall have been passed for the dissolution or liquidation of the Borrower.

Section 5.02. For the purposes of Section 7.01 of the General Conditions the following additional events are specified, namely, that any event specified in paragraphs (a), (b), (c) or (d) of Section 5.01 shall occur.

ARTICLE VI

Effectiveness; Miscellaneous

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Institutional Policy Statement has been adopted by the Borrower.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. The President of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.04. 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:

Korea Technology Development Corporation
FKI Building 9th floor
28-1 Yoido-Dong, Yongdungpo-Ku
Seoul, Korea

Cable address:

Telex:

KTDC
Yongdungpo-Ku
Seoul

K 22911 KTDCO

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/ S. Asanuma
Acting Regional Vice President
Asia

KOREA TECHNOLOGY DEVELOPMENT CORPORATION

By /s/ Sun-Sup Chang
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods and services for Sub-Loans, Lease and Investments	49,800,000	100% of foreign expenditures, and 60% of local expenditures
(2) Consultants' services and overseas training	200,000	100%
TOTAL	50,000,000	

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:

(a) in respect of a Sub-loan, a Lease or Investment unless the Sub-loan, Lease or Investment has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement;

(b) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$2,000,000, may be made in respect of Category (1) on account of payments made for expenditures before that date but after January 1, 1988;

(c) in respect of Investment Projects under Category (1) through KTIC, until the Borrower and KTIC have entered into a Subsidiary Loan Agreement on terms and conditions satisfactory to the Bank; and

(d) in respect of Large Companies, for local expenditures to be financed under Category (1).

SCHEDULE 2

Description of the Project

The objectives of the Project are (i) to assist in financing such productive facilities and resources in the Republic of Korea as will contribute to the economic and social development of the country, and (ii) to continue institutional support to the Borrower.

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:

The financing through the Borrower and KTIC of specific development projects through Sub-loans, Leases and Investments in private enterprises within the technology sector.

Part B:

Utilization of consultants' services and staff training to strengthen the Borrower's operational capacity.

* * *

The Project is expected to be completed by June 30, 1992.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 15 and July 15 beginning July 15, 1993 through July 15, 1998	4,165,000
On January 15, 1999	4,185,000

* The figures in this column represent dollar equivalent 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 (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than two years before maturity	0.18
More than two years but not more than four years before maturity	0.36
More than four years but not more than seven years before maturity	0.64
More than seven years but not more than nine years before maturity	0.82
More than nine years before maturity	1.00

SCHEDULE 4

Modifications 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) The words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in sub-paragraph 5 (d) of Schedule 5 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under sub-paragraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests. The Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

SCHEDULE 5

Procedures for and Terms and Conditions of Sub-loans, Investments and Lease

1. Terms and conditions:

(a) in respect of Conventional Loans and Leases, the foreign exchange risk will be borne by the sub-borrowers;

(b) in respect of Conditional Loans and Investments, the foreign exchange risk will be borne by the Borrower or KTIC; and

(c) notwithstanding the foregoing provisions of this paragraph 1, the Borrower may make available to other than Large

Companies, Conventional Loans up to an aggregate amount of \$5,000,000 on terms and conditions which shall include an option that the Investment Enterprise may pay an additional foreign exchange risk fee and pass on the foreign exchange risk to the Borrower.

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

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

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$700,000 equivalent;

(c) the Sub-loan for such Investment Project shall have been an unqualified free-limit Sub-Loan for which the expenditures shall have been made not earlier than 90 days prior to the date of withdrawal from the Special Account. For the purposes of this Agreement, an unqualified free-limit Sub-Loan shall be a Sub-Loan for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$250,000 equivalent; and

(d) except as the Bank shall otherwise agree, no Sub-loan, Lease or Investment shall exceed the equivalent of \$1,500,000, provided, however, that upto five Investment Projects may exceed said amount but not the equivalent of \$2,000,000, and no single Investment Enterprise, including its subsidiaries and parent companies shall be eligible to receive more than the equivalent of \$5,000,000 by way of Sub-loans, Leases and Investment.

3. Except as the Bank shall otherwise agree:

(a) the aggregate amount for Lease operations shall not exceed the equivalent of \$5,000,000; and

(b) the aggregate amount for unqualified Sub-loans shall not exceed the equivalent of \$5,000,000.

4. (a) The amortization schedule applicable to each Sub-loan made as a Conventional Loan shall provide for an appropriate period of grace, and, unless the Bank and the Borrower shall otherwise agree, shall not extend beyond 10 years (including a maximum grace period of 3 years) from the date of approval by the Bank of such Sub-loan or, in the case of a free-limit Sub-loan, of authorization by the Bank to make withdrawals from the Loan Account in respect thereof.

(b) Except as the Bank shall otherwise agree, the Borrower shall charge interest on amounts withdrawn and outstanding on Sub-loans made as Conventional Loans which, when taken together with other charges levied by the Borrower on such Sub-loans, will provide the Borrower with an adequate differential.

5. (a) When presenting a Sub-loan (other than a free-limit Sub-loan or an unqualified free-limit Sub-loan) or an Investment or a Lease operation to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the

Bank, together with (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, Lease or Investment, including the schedule of amortization of the Sub-loan or of repayment to the Bank of the amount of the Loan to be used for the Investment; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower 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 Investment Enterprise and the Investment 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-loan, including the schedule of amortization therefor.

(c) Each withdrawal by the Borrower for the unqualified free-limit Sub-Loans from the Special Account shall be accompanied by such information as the Bank and the Borrower shall agree.

(d) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before September 30, 1991.

6. Sub-loans, Leases and Investments shall be made on terms whereby the Borrower shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including, in the case of any Sub-loan and, to the extent that it shall be appropriate, in the case of any Leases or Investment, the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price under procurement procedures acceptable to the Bank, 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, and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall 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 (ii) without any limitation upon the foregoing, such insurance shall 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 Investment Enterprise to replace or repair such goods;

(e) obtain 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 Investment Enterprise and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Investment

Enterprise to the use of the proceeds of the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with the Borrower.

7. In order to assist the Borrower in carrying out Part B of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants 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 6

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 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, provided, however, that notwithstanding the provisions of paragraph 2 (b) of Schedule 5 to this Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

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

2. Except as the Bank shall otherwise agree, 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 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 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 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 such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by 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 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 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 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
- (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 the Project, shall be equal to the 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 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 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 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 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 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.

