

CONFORMED COPY

LOAN NUMBER 3735 RO

Loan Agreement

(Industrial Development Project)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated March 21, 1995

LOAN NUMBER 3735 RO

LOAN AGREEMENT

AGREEMENT, dated March 21, 1995, between ROMANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Borrower intends to contract from the European Investment Bank (EIB) a loan (the EIB Loan) in an aggregate amount equivalent to thirty million European Currency Units (ECU 30,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the EIB Loan Agreement) to be entered into between the Borrower and EIB; 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 Single Currency Loan and Guarantee Agreements" of the Bank, dated February 9, 1993, with the modifications set forth in Schedule 7 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) "Sub-loan" means a loan made or proposed to be made by a Participating Bank out of the proceeds of the Loan to a Beneficiary for a Sub-project;

(b) "Beneficiary" means any enterprise, duly established and operating under the Laws of the Borrower, to which a Participating Bank proposes to make or has made a Sub-loan;

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

(d) "Participating Bank" means any banking institution with which the Borrower, through the Apex Unit, has entered into a Subsidiary Financing Agreement;

(e) "Subsidiary Financing Agreement" and "Subsidiary Finance" mean, respectively, any agreement entered into between the Borrower, through the Apex Unit, and a Participating Bank pursuant to paragraph 3 (a) of Schedule 5 to this Agreement, and any loan made pursuant to a Subsidiary Financing Agreement; and

(f) "Special Account" means the account referred to in 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, various currencies that shall have an aggregate value equivalent to the amount of one hundred seventy-five million dollars (\$175,000,000).

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 may, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1998, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not

withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to Single Currency LIBOR, plus one-half of one percent (1/2 of 1%), plus or minus the Average Margin as provided in paragraph (b) (iv) below.

(b) For the purposes of this Section:

(i) "Interest Period" means the period from and including the date of this Agreement to but not including the first Interest Payment Date and thereafter the period from and including any Interest Payment Date to but not including the next Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "Single Currency LIBOR" means the London interbank offered rate for dollars, expressed as a percentage per annum, reasonably determined by the Bank in accordance with Schedule 8 to this Agreement for the January 15 or July 15 on which an Interest Period commences (or, for the initial Interest Period, the January 15 or July 15 preceding the date of this Agreement or on which such Interest Period commences).

(iv) "Average Margin" means, for any Interest Period, the weighted average margin, for the Semester preceding the relevant January 15 or July 15, between: (A) the cost of the outstanding borrowings of the Bank or portions thereof allocated to the funding of single currency loans in all currencies, and (B) the specific London and, for French francs, Paris interbank offered rates or other such reference rates attributable to such borrowings in each such currency, all as reasonably determined by the Bank and expressed as a percentage per annum. For any Interest Period in which (A) exceeds (B), the Average Margin shall be added under paragraph (a) above. For any Interest Period in which (B) exceeds (A), the Average Margin shall be subtracted under paragraph (a) above. Notwithstanding the foregoing, the Average Margin for the Interest Period ending July 14, 1993 shall be minus 0.28%.

(v) "Semester" means the first six months or second six months of a calendar year.

(c) After the Bank shall have determined Single Currency LIBOR and the Average Margin for any Interest Period, the Bank shall promptly notify the Borrower of such determination.

Section 2.06. Interest and other charges shall be payable 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

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 with due diligence and efficiency and in conformity with appropriate administrative, economic, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall

carry out or cause to be carried out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods 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.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained separate records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, 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 and 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 or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, or cause to be retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records contracts, orders, invoices, bills, receipts and other documents evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Except as the Bank shall otherwise agree, the Borrower shall, through the Apex Unit, in respect of repayments of principal of, respectively, the portions of the Subsidiary Finances utilized in the making of Sub-loans under Part B of the Project, and, separately, the portions of the Subsidiary Finances utilized in the making of Sub-loans under Part C of the Project:

(a) open, by the date on which it shall receive the first such repayment,

and, thereafter, maintain, in a bank, acceptable to the Bank, a separate account on terms and conditions satisfactory to the Bank; and

(b) upon receipt of each such repayment, credit the same to the said separate account. All amounts to be so credited shall be utilized, to the extent they are not yet required to meet the Borrower's repayment obligations under this Agreement, exclusively to finance, through the Participating Banks, specific projects on similar terms and conditions as those applicable to the Sub-loans made out of the respective portions of the Subsidiary Finances so repaid and credited to the said separate account.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely that:

(a) subject to paragraph (b) of this Section:

(i) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof,
or

(ii) any such loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Bank that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

ARTICLE VI

Effective Date; Termination

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

(a) all conditions precedent to the effectiveness of the EIB Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement;

(b) at least two Subsidiary Financing Agreements have been duly executed on behalf of, and are legally binding upon, the parties thereto in accordance with the terms thereof; and

(c) prudential regulations covering risk-based capital adequacy, asset classification and provisioning and general loan loss reserves have been introduced and made applicable to all commercial banks within the Borrower's territory.

Section 6.02. The date one hundred and twenty (120) 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 Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
17, Apolodor Street
Bucharest
Romania

Telex:

11239

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

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

ROMANIA

By /s/ Radu Mateescu

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rachel Lomax

Acting Regional Vice President
Europe and Central Asia

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, consultants' services and training under Part A of the Project	3,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally for goods, 100% of foreign expenditures for training and 100% for consultants' services
(2) Goods under Part B of the Project	70,000,000	100% of foreign expenditures
(3) Goods and consultants' services under Part C of the Project	102,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally for goods, and 100% for Consultants' services
TOTAL	175,000,000 =====	

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

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

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (1) strengthen institutional capabilities to facilitate further privatization and restructuring of the enterprise sector; and (2) assist in financing such productive facilities and resources as will contribute to increased

exports and improved enterprise productivity and competitiveness.

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

Part A:

The carrying out of programs to strengthen the organization and functions of the agencies, institutions and other entities involved in the formulation and execution of strategies for enterprise restructuring and privatization, including:

(1) a program, through the Borrower's Ministry of Industry: (a) to upgrade its office equipment and strengthen its capacity in the carrying out environmental assessments and its expertise in the development of industrial policies and strategies, (b) to develop restructuring and privatization strategies for the industrial sector, and (c) to formulate a strategy for the development of industrial technology infrastructure; and

(2) a program, through the Borrower's central bank, the National Bank of Romania: (a) to implement a suitable Chart of Accounts for commercial banks, (b) to establish and strengthen internal controls and auditing practices of commercial banks, (c) to train the staff of commercial banks in risk and asset and liability management policies, and (d) to train the staff of Participating Banks in project appraisal, export finance and investment lending.

Part B:

The establishment and operation of a credit facility for the financing, through the provision of Sub-loans by Participating Banks, of imports of production inputs required by enterprises for the manufacture of goods for export.

Part C:

The financing, through the provision of Sub-loans by Participating Banks, of specific development projects for the upgrading and expansion of the facilities and operations of enterprises and for improving their competitiveness and increasing their exports.

* * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 15, 2000	4,390,000
July 15, 2000	4,475,000
January 15, 2001	4,560,000
July 15, 2001	4,645,000
January 15, 2002	4,735,000
July 15, 2002	4,820,000
January 15, 2003	4,915,000
July 15, 2003	5,005,000
January 15, 2004	5,100,000
July 15, 2004	5,195,000
January 15, 2005	5,295,000
July 15, 2005	5,395,000
January 15, 2006	5,495,000
July 15, 2006	5,600,000
January 15, 2007	5,705,000

July 15, 2007	5,810,000
January 15, 2008	5,920,000
July 15, 2008	6,035,000
January 15, 2009	6,145,000
July 15, 2009	6,265,000
January 15, 2010	6,380,000
July 15, 2010	6,500,000
January 15, 2011	6,625,000
July 15, 2011	6,750,000
January 15, 2012	6,875,000
July 15, 2012	7,005,000
January 15, 2013	7,135,000
July 15, 2013	7,270,000
January 15, 2014	7,410,000
July 15, 2014	7,545,000

* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: Procurement Procedures

Goods to be financed under the respective Categories (1), (2) and (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement:

1. estimated to cost per contract the equivalent of more than \$1,000,000 for those to be so financed under Categories (1) and (3) and \$3,000,000 for those to be so financed under Category (2), shall be procured through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list, acceptable to the Bank, of qualified suppliers eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines) 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);
2. estimated to cost per contract the equivalent of between \$100,000 and \$1,000,000 for those to be so financed under Categories (1) and (3) and between \$100,000 and \$3,000,000 for those to be so financed under Category (2), may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three qualified suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank;
3. estimated to cost per contract the equivalent of less than \$100,000, may be procured, in accordance with the normal commercial practices of the Beneficiaries, acceptable to the Bank; and
4. which the Bank agrees are proprietary, may be procured under contracts after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part B: Review by the Bank of Procurement Decisions

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

(a) With respect to: (i) the first contract for goods to be financed under the first Sub-loan to be made by each Participating Bank under each of Parts B and C of the Project; and (ii) each contract for goods to be financed under Categories (1) and (3) estimated to cost the equivalent of \$1,000,000 or more, and under Category (2) estimated to cost the equivalent of \$3,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for

such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

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

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

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

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded to 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 (the Consultants' Guidelines).

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank and to amendments of contracts raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

The provision of this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement.

1. The Borrower shall: (a) maintain arrangements, satisfactory to the Bank, for the carrying out of Part A of the Project by the entities designated in said Part as responsible for the carrying out of the programs thereunder and for the overall coordination and supervision of the same, including through the establishment and maintenance for this purpose of a management unit, with staff and other resources and terms of reference satisfactory to the Bank, by each of the said entities; (b) employ or cause to be employed consultants, with qualifications and terms of reference satisfactory to the Bank, to assist in the carrying out of said Part; and (c) ensure that the training under said Part shall be carried out in accordance with programs, including arrangements and time schedules for the implementation thereof, and criteria for the selection of candidates thereunder, satisfactory to the Bank.

2. Parts B and C of the Project shall be carried out by the Borrower through its Ministry of Finance. For this purpose, the Borrower shall ensure that the said Ministry shall maintain or cause to be maintained: (a) a separate unit (the Apex Unit), with staff and other resources and terms of reference satisfactory to the Bank, to be responsible for the

carrying out of the said Parts; and (b) arrangements, satisfactory to the Bank, with the National Bank of Romania pursuant to which the National Bank of Romania shall continue to assist the said Ministry in determining the compliance by Participating Banks with the conditions set forth in Part B of the Annex to this Schedule.

3. For the purpose of carrying out Parts B and C of the Project, the Borrower shall through the Apex Unit:

(a) relend to the Participating Banks the equivalent of the proceeds of the Loan allocated from time to time to Categories (2) and (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under Subsidiary Financing Agreements to be entered into between the Borrower and each such Participating Bank, under terms and conditions which shall have been Approved by the Bank, and which shall include, without limitation, those set forth in the Annex to this Schedule;

(b) monitor the overall execution of said Parts and the carrying out by the Participating Banks of their respective Subsidiary Financing Agreements in accordance with policies and procedures satisfactory to the Bank;

(c) take or cause to be taken all action necessary or appropriate on its part to enable the Participating Banks to perform in accordance with the provisions of their respective Subsidiary Financing Agreements all the obligations of the Participating Banks therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance; and

(d) exercise its rights under the Subsidiary Financing Agreements in such manner as to protect the interests of the Bank and the Borrower and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any such Agreement or any provision thereof.

ANNEX TO SCHEDULE 5

Principal Terms and Conditions of the Subsidiary Financing Agreements

The principal terms and conditions set forth in this Schedule shall apply for the purposes of paragraph 3 (a) of Schedule 5 to this Agreement.

A. Terms:

1. The principal amount to be relend out of the proceeds of the loan to a Participating Bank under its respective Subsidiary Financing Agreement shall be: (a) denominated in dollars; and (b) the equivalent of the aggregate amount of the principal of all Sub-loans made out of the proceeds thereof.

2. The Subsidiary Finance shall be: (a) charged, on the principal amount thereof withdrawn and outstanding from time to time, interest, during each six-month period commencing on January 15 and July 15 of each calendar year, at a rate equal LIBOR plus a margin, as shall be calculated on the basis of guidelines acceptable to the Bank; and (b) repaid in accordance with an amortization schedule pursuant to which each portion thereof utilized in the making of a Sub-loan shall have a maturity calculated to conform to the amortization schedule applicable to such Sub-loan.

3. The right of a Participating Bank to the use of the proceeds of its respective Subsidiary Finance shall be: (a) suspended upon failure of such Participating Bank to perform any of its obligations under its respective Subsidiary Financing Agreement or to continue to be in compliance with all legal and regulatory requirements applicable to its operations; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of 60 days.

B. Conditions:

1. A Subsidiary Financing Agreement may be entered into with a banking institution,

duly established and operating under the laws of the Borrower, which the Borrower, with the assistance of the National Bank of Romania pursuant to the arrangements referred to in paragraph 2 (b) of Schedule 5 to this Agreement, shall have determined, and the Bank shall have agreed, that such banking institution:

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

(b) is operating pursuant to investment and lending policies and procedures which the Bank and the National Bank of Romania pursuant to paragraph 2 or Part B or Schedule 5 to this Agreement shall have judged acceptable, and has undertaken to maintain said policies and procedures;

(c) has a satisfactory financial structure, determined, inter alia, on the basis of risk-based capital adequacy criteria satisfactory to the Bank, policies and performance, and the organization, management, staff and other resources required for the efficient carrying out of its operations, including its activities to be undertaken under Parts B and C of the Project; and

(d) has established a credit committee and a technical unit in accordance with, and for the purposes set forth in paragraph 2 (c) hereof.

2. Each respective Subsidiary Financing Agreement shall contain provisions pursuant to which each respective Participating Bank shall undertake to:

(a) carry out its activities under Parts B and C of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in paragraph 1 (b) hereof, and to provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

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

(c) maintain, with staff and other resources and terms of reference, satisfactory to the Bank and the Borrower: (i) a credit committee to be responsible for the evaluation and approval of Sub-loan applications; and (ii) a technical unit to be responsible for the appraisal and supervision of the carrying out of Sub-projects;

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

(e) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (iii) furnish to the Bank, as

soon as available, but in any case not later than six months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Bank shall have reasonably requested; and (iv) furnish to the Bank such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank shall from time to time reasonably request.

ATTACHMENT TO THE ANNEX TO SCHEDULE 5

Terms and Conditions of the Sub-loans

The provision of this Attachment shall for the purposes of paragraph 2 (b) (i) of Part B of the Annex to Schedule 5 to this Agreement.

1. The principal amount of each Sub-loan made out of the proceeds of the Loan allocated from time to time to Categories (2) and (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement shall: (a) be denominated and be equivalent in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods financed out of such proceeds for the Sub-project; and (b) not exceed the equivalent of (i) \$5,000,000 in respect of a Sub-loan under Part B of the Project, and (ii) \$8,000,000 in respect of a Sub-loan under Part C of the Project.

2. Each Sub-loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate determined by the Participating Bank making such Sub-loan in accordance with its investment and lending policies and practices referred to in paragraph 1 (b) of Part B of the Annex to Schedule 5 of this Agreement; and (b) made for a period determined pursuant to said policies and practices and not exceeding (i) in respect of a Sub-loan under Part B of the Project, 365 days; and (ii) in respect of a Sub-loan under Part C of the Project, three to 17 years, inclusive of a grace period of one to five years.

3. No expenditures for goods required for a Sub-project shall be eligible for financing out of the proceeds of the loan unless:

(a) the Sub-loan for such Sub-project shall have been approved by the Bank and such expenditures shall have been made not earlier than 180 days prior to the date on which the Bank shall have received the application and information required under paragraph 4 (a) of this Attachment in respect of such Sub-loan, or

(b) the Sub-loan for such Sub-project shall have been a free-limit Sub-loan (as hereinafter defined) for which the Bank shall have authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than 180 days prior to the date on which the Bank shall have received the request and information required under paragraph 4 (b) of this Attachment in respect of such free-limit Sub-loan. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan for a Sub-project to be made by each respective Participating Bank in an amount to be financed out of the proceeds of the Loan which shall not exceed, when added to all other free-limit Sub-loans financed or proposed to be financed out of the proceeds of the Loan and which have been or are being used for financing goods directly and materially related to such Sub-project, the sum determined from time to time by the Bank and notified to the Borrower and each such respective Participating Bank.

4. (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 Bank, through the Apex Unit, an application, in form satisfactory to the Bank, together with: (i) a description of the Beneficiary; (ii) the appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (iii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iv) any 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 Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Bank not later than January 1, 1996.

5. Sub-loans shall be made to Beneficiaries who each shall have established to the satisfaction of the Participating Bank making the Sub-loan, on the basis of guidelines acceptable to the Bank that:

(a) it is creditworthy, and has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project;

(b) in respect of Beneficiaries under Part B of the Project, it has a demonstrable and relevant exporting experience and is in possession of a satisfactory irrevocable letter of credit or confirmed purchase order issued by a responsible buyer covering the export product to be manufactured utilizing the goods to be purchased under the Sub-loan; and

(c) in respect of Beneficiaries under Part C of the Project, it is an enterprise established under the Borrower's Law No. 31 on Business Companies, dated November 16, 1990, and have developed and adopted a business plan, including a restructuring program, designed to provide for its long-term financial and operational success, and is either (i) a private sector enterprise, or (ii) other than a private sector enterprise in respect of which the Borrower's State Ownership Fund has initiated actions to facilitate the transfer, within a 12-month period of the date of the making of Sub-loan to it, of its ownership to the private sector under the Borrower's Law No. 58 on Commercial Companies Privatization Law, dated August 14, 1991, and whose business plan is designed to ensure the efficient transformation into a private sector enterprise. For the purposes hereof, the term "private sector enterprise" means an enterprise of which a majority of the outstanding voting stock or other pro-prietary interest is not owned or controlled by the Borrower or any of its agencies.

6. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with guidelines satisfactory to the Bank, to be:

(a) technically feasible and economically, financially and commercially viable;

(b) in respect of Sub-projects under Part B of the Project, for the manufacture of products for export whose manufacturing cost includes a positive value-added in the territory of the Borrower; and

(c) in respect of Sub-projects under Part C of the Project, designed with appropriate health, safety and environmental standards, on the basis of an environmental impact analysis approved by the Borrower's Ministry of Environment, and calculated to have a financial rate of return and an economic rate of return of at least 15% each.

7. Sub-loans shall be made on terms whereby the Participating Bank making the Sub-loan shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Borrower and the Bank, including the right to:

(a) require the Beneficiary to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate technical, economical, financial and commercial practices, to maintain adequate records, and to provide, promptly as needed, the fund, facilities and other resources required for the purpose;

(b) require that the goods to be financed out of the proceeds of the Loan to be procured in accordance with the provisions of Schedule 4 to this Agreement, and use such goods exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Bank or the Apex Unit on behalf of the Borrower if the Bank, the Borrower, or the Apex Unit shall so request, the goods and the sites, works, plans and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including 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;

(e) require each Beneficiary to (i) have its financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Participating Bank, and (ii) furnish to the Participating Bank, as soon as available, but in any case not later than six months after the end of each such year, certified copies of its financial statements for such year as so audited, and the report of such audit by said auditors, of such scope and in such detail as the Participating Bank shall have reasonably requested;

(f) in respect of Beneficiaries under Part C of the Project, require the Beneficiary to implement its business plan, referred to in paragraph 5 (c) of this Attachment with due diligence and efficiency and take all necessary action to achieve the objectives thereof, and carry out and operate the Sub-project in accordance with appropriate health, safety and environmental standards, satisfactory to the Bank;

(g) obtain all such information as the Bank, the Borrower, or the Apex Unit shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(h) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Loan upon failure by such Beneficiary to perform its obligations under its contract with the Participating Bank.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2 and 3, set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$17,500,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent

withdrawals to replenish
the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the respective Part of the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to such Part, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for such Part shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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

SCHEDULE 7

Modifications of General Conditions

For the purpose of this Agreement, 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 of the General Conditions are deleted and the following is substituted therefor:

"or (f) by the date specified in paragraph 4 (c) of the Attachment to the Annex to 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 subparagraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower, 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 8

Single Currency LIBOR Determination

1. Single Currency LIBOR for any Interest Period shall be the offered rate for deposits in dollars for a period of six months which appears on the display designated as page "3750" on the Telerate monitor (or such other page or service as may replace it for the purpose of displaying London interbank offered rates of major banks for dollar deposits), as of 11:00 a.m. (London time) on the second day on which banks and foreign exchange markets are open for business in London prior to the relevant January 15 or July 15 (the Interest Determination Date).

2. If such rate does not appear on the Telerate monitor or on such service as may replace it, the Bank shall request the London offices of four major banks to provide the Bank with the rate at which deposits in dollars are offered by such banks on the Interest Determination Date to leading banks in the London interbank market for a period of six months ending on the last day of such Interest Period. Single Currency LIBOR for such Interest Period shall be the arithmetic mean (rounded upwards if necessary to the fifth decimal place) of such offered quotations as determined by the Bank.

3. If not more than one major bank provides the Bank with such quotations under paragraph 2 above, Single Currency LIBOR shall be arithmetic mean (rounded upwards if necessary to the fifth decimal place) determined by the Bank of the rates quoted by at least two major banks in New York City selected by the Bank on the Interest Determination Date for loans in dollars to leading European banks for a period of six months ending on the last date of such Interest Period. If fewer than two of the banks so selected are quoting such rates, Single Currency LIBOR shall be the single currency in effect for the last preceding Interest Period.



