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CONFORMED COPY

LOAN NUMBER 7223 POL

Loan Agreement

(Road Maintenance and Rehabilitation Project)

between

REPUBLIC OF POLAND

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated April 7, 2004

LOAN NUMBER 7223 POL

LOAN AGREEMENT

AGREEMENT, dated April 7, 2004, between REPUBLIC OF POLAND (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter dated February 24, 2004, describing a program of actions, objectives and policies designed to restructure the road sector and to improve performance of the sector (hereinafter called the Program), and declaring the Borrower's commitment to the implementation of the Program;

(B) 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; 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 for Fixed-Spread Loans" of the Bank, dated September 1, 1999, (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 the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Eligible Categories" means categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(b) "Eligible Expenditures" means the expenditures for goods, works, services and Road Maintenance and Rehabilitation Transfers (hereinafter defined) referred to in Section 2.02 of this Agreement;

(c) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(d) "GDDKiA" means the General Directorate for Roads and Motorways of the Borrower, consisting of headquarters and 16 branches;

(e) “GDDKiA Modernization Action Plan” means the action plan, prepared by GDDKiA and approved by the MOI (hereinafter defined) to reform GDDKiA, as it may be amended from time to time;

(f) “HDM-4 System” means the Highway Development and Management Computerized System;

(g) “MOI” means the Borrower’s Ministry of Infrastructure;

(h) “NRSC” means the National Road Safety Council Secretariat of the Borrower within the MOI and for purposes of Part C of the Project it shall include the Fire Brigade and the Traffic Police of the Borrower, and selected local authorities;

(i) “Operational Manual” means the Operational Manual for the carrying out of the Project, prepared and adopted by the Borrower, as the same may be amended from time to time with the agreement of the Bank;

(j) “PCU” means the Project Coordination Unit established under the MOI;

(k) “PPP” means Private-Public Partnership schemes to increase the role of the private sector in road maintenance, rehabilitation and improvement works;

(l) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.4 of Schedule 1 to this Agreement;

(m) “Road Maintenance and Rehabilitation Program” means the sub-program for road maintenance and rehabilitation co-financed by the Bank, prepared by GDDKiA with the assistance of the HDM-4 System, and which constitutes part of the GDDKiA budget allocated for the management of the national road network;

(n) “Road Maintenance and Rehabilitation Transfers” means the amount, consisting of 67% out of the proceeds of the Loan and 33% from the Borrower’s own resources, transferred by the Borrower through its Ministry of Finance to the MOI and through the MOI to GDDKiA to cover the costs of goods, works and services required for the implementation of the Road Maintenance and Rehabilitation Program;

(o) “Road Safety Improvement Program” means the program of actions under GAMBIT 2000, which is a comprehensive road safety program to improve road safety in Poland; and

(p) “Special Account” means the account referred to in Part B of Schedule 1 to 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 this Agreement, an amount equal to one hundred million Euro (EUR 100,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. 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: (a) the reasonable cost of goods, works and services under Parts A, C and D of the Project and Road Maintenance and Rehabilitation Transfers under Part B of the Project, required for the Project and to be financed out of the proceeds of the Loan; and (b) the front-end fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006 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 front-end fee in an amount equal to one million Euro (EUR 1,000,000). On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty-five one-hundredths of one percent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy-five one-hundredths of one percent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest, commitment and other charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in full on March 15, 2014.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower through the MOI 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 through GDDKiA in respect of Parts A, B and D of the Project and through NRSC in respect of Part C of the Project, with due diligence and efficiency and in conformity with appropriate financial, administrative, technical, engineering, and environmental 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 Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of goods, works and services required for the Project and to be financed out of the proceeds of the Loan, as well as of those to be financed through the Road Maintenance and Rehabilitation Transfers shall be governed by the provisions of Schedule 3 to this Agreement.

(b) Without prejudice to the provisions of Section 6.03 (d) of the General Conditions (and the terms of paragraph 1.13 of the Guidelines referred to in Schedule 3 to this Agreement and paragraph 1.18 of the Consultant Guidelines also referred to in said Schedule), if, at any time, the Bank determines that the procurement of any contract financed through disbursements from Road

Maintenance and Rehabilitation Transfers is inconsistent with the procedures set forth or referred to in this Agreement, the Bank may, by notice to the Borrower cancel an amount of the Loan equivalent to sixty seven percent (67%) of the amount of such contract.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower through the MOI shall cause GDDKiA and NRSC to maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower through the MOI shall cause GDDKiA and NRSC to:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

(iii) furnish to the Bank such other information concerning such records, accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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 reports referred to in Part A.5 of Schedule 1 to this Agreement

(Report-based Disbursements) or on the basis of statements of expenditure, the Borrower through the MOI shall cause GDDKiA and NRSC to:

- (i) retain, until at least one (1) year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 4 to this Agreement, the Borrower through the MOI shall prepare and furnish to the Bank a Financial Monitoring Report, in form and substance satisfactory to the Bank, which: (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds; (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. Without prejudice to the requirements of Section 4.02 above, with respect to Part B of the Project the Borrower through the MOI shall cause GDDKiA to prepare and submit to the Bank monthly financial reports in form and substance satisfactory to the Bank, within thirty days after each month.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation shall have arisen which shall make it improbable that the Program or a significant part thereof, will be carried out.

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) the Borrower has appointed a senior manager as Road Safety Officer at GDDKiA to liaise and work with NRSC and has introduced procedures to undertake road safety audits on all works related to the Polish national road network; and

(b) the Borrower has adopted the Operational Manual, satisfactory to the Bank.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance 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
u1. Swietokrzyska 12
00-916 Warszawa
Republic of Poland

Cable address:

MINF
Poland

Telex:

825592 minf pl or
814386 minf pl

Facsimile:

48 22 826 6670

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 (MCI) or
64145 (MCI)

Facsimile:

1 (202) 477-6391

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

REPUBLIC OF POLAND

By /s/ Andrzej Raczko

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Roger Grawe

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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:

	<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in EUR)</u>	<u>% of Expenditures to be financed</u>
(1)	Works under Part C of the Project	1,000,000	80%
(2)	Goods under Part C of the Project	2,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3)	Consultants' services, including auditing services, and training and study tours		100% for foreign consulting firms and foreign individual consultants and 83.5% for local consulting firms and local individual consultants including 100% of eligible social charges
	(a) under Parts A and D of the Project	2,500,000	
	(b) under Part C of the Project	1,500,000	

<u>Category</u>	<u>Amount of the Loan Allocated Expressed in EUR)</u>	<u>% of Expenditures to be financed</u>
(4) Road Maintenance and Rehabilitation Transfers for Part B of the Project	92,000,000	67%
(5) Front-end fee	<u>1,000,000</u>	Amount due under Section 2.04 of this Agreement
TOTAL	<u>100,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “foreign consulting firm” means a consulting firm which is registered or incorporated in the territory of any country other than that of the Borrower;

(d) the term “foreign individual consultant” means an individual consultant who is not a citizen of the territory of the Borrower;

(e) the term “local consulting firm” means a consulting firm which is registered or incorporated in the territory of the Borrower;

(f) the term “local individual consultant” means an individual consultant who is a citizen of the territory of the Borrower;

(g) the term “eligible social charges” means the employer’s contribution to social and medical charges assessed by the Borrower on employment contracts with citizens of the Borrower;

(h) the term “training” means expenditures incurred to finance the reasonable cost of transportation, accommodation, per diem, interpretation services and cost of training courses under the Project; and

(i) the term “study tours” means expenditures incurred to finance the reasonable cost of transportation, accommodation, per diem and interpretation services for study tours abroad and such costs for visiting teaching staff providing training under the Project.

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, except that withdrawals, in an aggregate amount not exceeding ten million Euro (EUR 10,000,000), may be made in respect of Category (4) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after January 1, 2004; and (b) payments under Category 4 of the table set forth in paragraph 1 of this Part A, in the event the Borrower shall have failed to furnish to the Bank by a date six months after the end of each fiscal year (or such other period agreed to by the Bank), together with the audits referred to in Section 4.01 (b) of this Agreement, such documents and other evidence showing, to the satisfaction of the Bank, that the amounts of the Road Maintenance and Rehabilitation Transfers were used for goods, works and services eligible for financing out of the proceeds of the Loan as confirmed by such audit report.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods and works, with the exception of goods and works under contracts procured in accordance with international competitive bidding procedures set forth in Part B of Section I of Schedule 3 to this Agreement; (b) services of consulting firms under contracts costing less than EUR 200,000 equivalent per contract; and (c) services of individual consultants under contracts costing less than EUR 100,000 equivalent per contract; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a cash forecast report for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Euro a special deposit account in the National Bank of Poland or in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment in the case of a commercial bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements; or

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of EUR 10,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
2. 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 deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. 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.
 - (b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions 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 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the effectiveness of Poland's national road rehabilitation and maintenance systems by: (i) significantly increasing the percentage of national roads in good and fair conditions; (ii) establishing reliable and stable funding for the national road maintenance and rehabilitation network and for road safety; and (iii) improving the capacity within GDDKiA to operate efficiently and effectively and to reflect the views of road users in developing its programs.

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: GDDKiA Modernization Action Plan

Carrying out of the GDDKiA Modernization Action Plan including, inter alia: (a) carrying out of a detailed diagnosis of the current situation of GDDKiA and implementation of modernization measures at GDDKiA headquarters, including initiation of development of procedures for preparation and implementation of roads projects; (b) completion of GDDKiA reorganization at central level, carrying out of reorganization at regional level and completion of procedures for preparation and implementation of road projects; (c) establishment of a proper system of strategic planning at GDDKiA better reflecting road users' needs; and (d) evaluation of efficiency of implemented measures, addressing the gaps that remain after (a), (b) and (c) above have been completed and review of potential for further improvements in order to further increase efficiency of GDDKiA.

Part B: Road Maintenance and Rehabilitation Program

Carrying out of the Road Maintenance and Rehabilitation Program for maintenance and rehabilitation and strengthening and reconstruction of existing roads as developed by GDDKiA with the assistance of the HDM-4 System and in accordance with the requirements set forth or referred to in the Operational Manual.

Part C: Road Safety Improvement Program

Carrying out by NRSC of the Road Safety Improvement Program by enhancing the capacities of prevention and mitigation of crash consequences through the provision of financing to partially support initiatives in the area of accident prevention and mitigation and traffic calming measures.

Part D: Private Sector Involvement

Provision of technical assistance to GDDKiA and the MOI to design and implement PPP schemes in Poland.

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than EUR 500,000 equivalent per contract, and works estimated to cost less than EUR 6,000,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and the following provisions:

(a) with respect to eligible contracts procured under the Act on Public Procurement, dated June 10, 1994, that became effective on January 1, 1995, as amended, the procedures to be followed for national competitive bidding shall be those allowing open tendering set forth in said Act with the clarifications set forth below required for compliance with the Guidelines: (i) no domestic preference shall be used; and (ii) the term “Best Offer” shall be understood as the lowest evaluated bid selected following evaluation with use of quantifiable factors expressed in monetary terms. In addition, no merit points system shall be used to evaluate bids; and

(b) with respect to eligible contracts procured under the Act on Public Procurement, dated January 29, 2004, that became effective on March 2, 2004, the procedures to be followed for national competitive bidding shall be those allowing open tendering set forth in said Act with the clarifications set forth below required for compliance with the Guidelines: the term “Best Offer” shall be understood as the lowest evaluated bid selected following evaluation with use of quantifiable factors expressed in monetary terms. In addition, no merit points system shall be used to evaluate bids.

2. National Shopping

Goods under Parts B and C of the Project estimated to cost less than EUR 60,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works under Parts B and C of the Project estimated to cost less than EUR 60,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project (except for the Road Maintenance and Rehabilitation Program under Part B of the Project), shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods and works procured in accordance with international competitive bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.
2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services under the Project, estimated to cost less than EUR 200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits for the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for technical assistance under the Project estimated to cost less than EUR 100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Advisory services under Part A of the Project estimated to cost less than EUR 530,000 in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants (except for the Road Maintenance and Rehabilitation Program under Part B of the Project), which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of EUR 200,000 or more; (ii) all contracts procured under least-cost selection method; and (iii) all contracts procured under single-source selection method, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of EUR 100,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) With respect to each contract for the employment of individual consultants estimated to cost more than EUR 50,000 equivalent per contract, the terms of reference of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the Operational Manual.
2. The Borrower shall maintain the PCU within the MOI, headed by a Project Coordinator, until completion of the Project, with staff, resources and terms of reference satisfactory to the Bank and shall assign to it responsibility for overall Project coordination, including, inter alia: (a) consolidation of all reporting requirements under the Project, including an annual work program for the Project and an annual progress report; (b) management of the Special Account referred to in Part B of Schedule 1 to this Agreement; and (c) carrying out of monitoring and evaluation activities under the Project.
3. The Borrower through the MOI shall assign responsibility for management and coordination of the Project to: (a) GDDKiA in respect of Parts A, B and D of the Project; and (b) NRSC in respect of Part C of the Project, including, inter alia:
 - (i) preparation of disbursement applications under the Loan;
 - (ii) maintenance of records and accounts related to the Project and arranging for the audit thereof; and
 - (iii) participation in administration of bidding procedures and of contracts under the Project.
4. The Borrower through the MOI shall determine on the basis of proposals by GDDKiA the overall program of expenditures for national roads with the assistance of the HDM-4 System.
5. The Borrower through the MOI shall cause GDDKiA to: (a) carry out Part B of the Project in accordance with the requirements set forth or referred to in the Operational Manual, including, inter alia, the procedures for the selection, carrying out, monitoring and evaluation of the maintenance and rehabilitation works under Part B of the Project and any requirements thereof relating to environmental and social standards satisfactory to the Bank and all applicable laws and regulations of the Borrower relating to work and road safety and environmental protection and shall include adequate information regarding the above in the FMRs for the Project; and (b) maintain the Operational Manual in form and content at all times satisfactory to the Bank.

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the Program and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about February 28 of each year until completion of the Project, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project and the Program during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by April 30 of each year until completion of the Project, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the Program and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.