

CONFORMED COPY

LOAN NUMBER 3342 POL

(Privatization and Restructuring Project)

between

REPUBLIC OF POLAND

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 10, 1991

LOAN NUMBER 3342 POL

LOAN AGREEMENT

AGREEMENT, dated July 10, 1991, between REPUBLIC OF POLAND (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated May 23, 1991, from the Borrower describing a program of actions, objectives and policies designed to achieve privatization and restructuring of the Borrower's economy (the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports required during such execution;

(B) it is contemplated that the Borrower may require assistance from the Bank in the implementation of the Borrower's Debt Reduction Plan (as defined in Section 1.02 (i) of this Agreement);

(C) 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;

(D) the Borrower intends to contract from other sources of finance (the Cofinanciers) loans and grants in an aggregate amount equivalent to \$95,000,000 to assist in financing the Project on the terms and conditions set forth in agreements (the Cofinanciers Agreements) to be entered into between the Borrower and the Cofinanciers; and

(E) Part D of the Project will be carried out by the Polish Development Bank (PDB) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PDB part of the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and PDB;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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) "Project Agreement" means the agreement between the Bank and PDB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PDB pursuant to paragraph 1 of Part D of Schedule 5 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement, and "Subsidiary Loan" means the loan provided under the Subsidiary Loan Agreement;

(c) "Charter" means the Charter of the Polish Development Bank dated October 11, 1990;

(d) "Statement of Policy" means PDB's statement of lending and investment policy as adopted and approved by the Board of Directors of PDB on May 20, 1991;

(e) "Special Account A" and "Special Account B" mean the accounts referred to, respectively, in paragraph (b) (i) and paragraph (b) (ii) of Section 2.02 of this Agreement, and "Special Accounts" means the Special Account A and the Special Account B;

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

(g) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986);

(h) "Deutsche Mark" means Deutsche Mark in the currency of the Federal Republic of Germany;

(i) "Debt Reduction Plan" means a plan of the Borrower to be furnished to the Bank in accordance with Part B of Schedule 5 to this Agreement for partial funding under this Agreement to reduce the Borrower's payments of principal and interest on its external loans from non-official creditors; and

(j) "Implementation Agreement" means the agreement to be entered into, in accordance with Part B of Schedule 5 to this Agreement, between the Bank and the Borrower relating to the use of the proceeds of a portion of the Loan for the Debt Reduction Plan.

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 two hundred eighty million dollars (\$280,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

(b) The Borrower shall, open and maintain in dollars on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment (i) for the purposes of Part C of the Project, a special deposit account in a bank, acceptable to the Bank; and (ii) for the purposes of Part D of the Project, a special deposit account in PDB. Deposits into, and payments out of, each of the Special Accounts shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
 - (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989, bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
 - (iii) "Semester" means the first six months or the second six months of a calendar year.
- (d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on June 1 and December 1 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out or cause to be carried out the Project with due diligence and efficiency and in conformity with appropriate administrative, technical and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(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 Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained 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 Accounts, 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, 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 Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) A situation shall have arisen which shall make it improbable that the Program, or any significant part thereof, will be carried out.

(b) PDB shall have failed to perform any of its obligations

under the Project Agreement.

(c) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that PDB will be able to perform its obligations under the Project Agreement.

(d) The Charter or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PDB to perform any of its obligations under the Project Agreement.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PDB or for the suspension of its operations.

(f) Any of the Cofinanciers' Agreements shall have failed to become effective by June 30, 1992, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that 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.

(g) (i) Subject to subparagraph (ii) of this paragraph:

(A) 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

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

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) 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 (B) 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 events are specified:

(a) the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower and PDB;

(b) any event specified in paragraph (d) or (e) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (g) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (g) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Project Agreement has been duly authorized or ratified by PDB, and is legally binding upon PDB in accordance with its terms.

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 Ownership Changes 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 Ownership Changes
00-525 Warszawa
ul. Krucza 36
Poland

Telex:

812698

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

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.

REPUBLIC OF POLAND

By /s/ Jacek Tomorowicz
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kemal Dervis
Acting Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Amount of the Loan Allocated	% of
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Category	(Expressed in Dollar Equivalent)	Expenditures to be Financed
(1) Goods under Part A of the Project	25,000,000	100% of foreign expenditures
(2) Debt Reduction Plan under Part B of the Project	50,000,000	To be agreed between the Borrower and the Bank, subject to the provisions of paragraph 4 of this Schedule
(3) Goods, consultants' services and training under Part C of the Project	55,000,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods, 100% of foreign expenditures for training and 100% for consultants' services

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(4) Under Part D of the Project		
(a) goods, technical licenses, consultants' services and training	120,000,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods, 100% of foreign expenditures for training and 100% for consultants' services
(b) Capitalized interest	5,000,000	Amounts capitalized pursuant to paragraph A.3 of Annex B to the Schedule to the Project Agreement
(5) Unallocated	25,000,000	
TOTAL	280,000,000 =====	

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:

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

(b) expenditures under Categories (1), (2) and (4) until the Borrower shall have developed a satisfactory time-bound program for the mass privatization of state enterprises;

(c) expenditures under Category (2) except following the execution and effectiveness of, and in accordance with the terms and conditions of, the Implementation Agreement;

(d) expenditures under Category (3) until evidence shall have been received by the Bank that the technical assistance procurement unit referred to in paragraph 1 of Part B of Schedule 5 to this Agreement has been established in accordance with the provisions of said paragraph 1;

(e) expenditures under Category (4) until the Bank shall have communicated to the Borrower and PDB its acceptance of evidence that the Subsidiary Loan Agreement has been duly executed on behalf of the Borrower and PDB and is legally binding upon the Borrower and PDB in accordance with its terms; and

(f) expenditures under Category (1) for goods:

(i) included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Items
112	--	Alcoholic beverages
121	--	Tobacco, unmanufactured, tobacco refuse
122	--	Tobacco, manufactured (whether or not containing tobacco substitutes)

Group	Sub-group	Description of Items
525	--	Radioactive and associated materials
667	--	Pearls, precious and semi-precious stones, unworked or worked
718	718.1	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)

971	--	Gold, non-monetary (excluding gold ores and concentrates),
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(ii) procured under contracts costing less than \$25,000 equivalent each,

(iii) supplied under a contract which any national or international financing institution or agency

other than the Bank shall have financed or agreed to finance, and

- (iv) intended for a military or paramilitary purpose or for luxury consumption.

4. If the Implementation Agreement shall not have been entered into by June 30, 1992, or such other date as agreed between the Borrower and the Bank, then the proceeds of the Loan allocated to Category (2) shall, at the request of the Borrower, be reallocated to Category (1) for the purposes of Part A of the Project. Further, if any amount of the Loan allocated to Category (2) is not used for the Debt Reduction Plan, in accordance with the provisions of the Implementation Agreement, the Bank shall, at the request of the Borrower, reallocate such amount to Category (1) for the purposes of Part A of the Project.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in accelerating the privatization and restructuring of the Borrower's economy and, subject to the execution and effectiveness of the Implementation Agreement, in implementing the Debt Reduction Plan.

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 financing of urgently needed imports required during the execution of the Program.

Part B:

The implementation of the Debt Reduction Plan.

Part C:

The carrying out of a program to strengthen institutional capabilities and prepare specific plans for the efficient privatization and restructuring of state enterprises, comprising: (1) the design and implementation of strategies further to develop the organization, management and operations of the institutions involved in such privatization and restructuring, including those of the Borrower's Ministry of Ownership Changes and Ministry of Industry, the Polish Development Bank, the Industrial Development Agency, the Foreign Investment Agency, the Anti-Monopoly Agency and the relevant local government agencies; (2) the carrying out by the institutions referred to in subpart (1) hereof of studies and other activities to prepare and execute specific plans for the privatization and restructuring of individual state enterprises; and (3) the provision of technical assistance and equipment to the unit referred to in paragraph B.2 of Schedule 5 to this Agreement.

Part D:

The financing, through PDB, of specific development projects to restructure the operations, upgrade and expand the facilities, cover the permanent working capital requirements and strengthen the organization, management and operations of enterprises.

* * *

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 1 and December 1 beginning December 1, 1996 through December 1, 2007	11,665,000
On June 1, 2008	11,705,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods to be financed under Category (1)

Part A: Procurement Procedures

1. Contracts for the procurement of goods estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

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

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid;

such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

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

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

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

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

2. Contracts for the procurement of goods estimated to cost the equivalent of less than \$5,000,000 shall be awarded:

(a) by purchasers required to follow the Borrower's public procurement procedures for the importation of goods, on the basis of such procedures, provided that such procedures shall have been found acceptable by the Bank;

(b) by other purchasers, in accordance with established commercial practice, provided that such contracts shall be awarded on the basis of evaluation and comparison of quotations obtained from suppliers from at least two countries, except that direct contracting procedures acceptable to the Bank may be used where considered appropriate under paragraph 3.5 of the Guidelines; and

(c) by any purchasers, for the supply of commodities, on the basis of evaluation and comparison of quotations obtained from more than one supplier.

Part B: Review by the Bank of Procurement Decisions

1. With respect to each contract referred to in paragraph 1 of Part A of this Section, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

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

3. The provisions of the preceding paragraph 2 of this Schedule shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure.

Section II. Procurement of Goods and Technical licenses under Categories (3) and (4)

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the Guidelines.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A of this Section, goods manufactured in the territory of the Borrower may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Goods estimated to cost the equivalent of \$2,000,000 or less per contract may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least two suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.
2. Contracts and technical licenses which the Bank agrees are of a proprietary nature, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of \$2,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of either of the Special Accounts A or B, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of such Special Account A or B 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 either of the Special Accounts A or B, 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 the Bank has authorized withdrawals 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 III. Employment of Consultants

Consultants' services shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

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

A. The Program and Part A of the Project

1. The Borrower shall continue to maintain, under terms of reference satisfactory to the Bank, an inter-ministerial committee with membership consisting of senior representatives of the Borrower's Ministry of Finance, Ministry of Ownership Changes and Ministry of Industry. Said committee shall be responsible for the monitoring and coordination of the execution of the Program and for the preparation of the guidelines referred to in paragraph 1 of Part B of this Schedule.

2. The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program, and the Borrower shall, prior to each such exchange of views, furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonable request.

3. In furtherance of the objectives of the Program, the Borrower shall:

(a) develop, in accordance with terms of reference satisfactory to the Bank, and furnish to the Bank for its review and comments: (i) by September 30, 1991, guidelines for directors representing the Borrower on the boards of joint-stock companies which are fully or partially owned by the Borrower; and (ii) by December 31, 1991, (A) a plan for the application of debt-equity swaps in the privatization of individual state enterprises; (B) a statement of policy on environmental contingent liabilities of new owners of privatized state enterprises; (C) a policy of incentives and other measures necessary to accelerate the commercialization of state enterprises; (D) a plan for exercising the Borrower's ownership rights in state enterprises and for delegation of responsibility for the management of such ownership rights; and (E) a strategy for redefining the terms of reference and reorganizing the Borrower's Ministry of Industry in view of the evolving structure of the Borrower's industrial sector, and an implementation plan therefor designed to ensure the implementation thereof by June 30, 1992; and

(b) finalize and thereafter implement the same, taking into consideration the Bank's views thereon.

4. Without limitation on its other obligations under this Agreement, the Borrower shall entrust the National Bank of Poland with responsibility for the preparation of withdrawal applications for Part A of the Project and for the collection of the documents and other evidence to be furnished to the Bank in support of such applications; such withdrawal applications shall to the extent practicable be consolidated so as to apply for withdrawal of aggregate amounts of not less than \$1,000,000 equivalent.

B. Part B of the Project

The Borrower shall as soon as possible submit a debt reduction plan to the Bank for its review. If, in the judgement of the Bank, such plan meets the Bank's requirements for Bank support of debt reduction operations, the Borrower and the Bank shall seek to conclude an implementation agreement for such plan as soon as possible after the Bank has approved support therefor.

C. Part C of the Project

1. The Borrower shall carry out or cause to be carried out Part C of the Project in accordance with the guidelines prepared by the inter-ministerial committee referred to in paragraph 1 of Part A of this Schedule and agreed between the Borrower and the Bank.

2. In order to facilitate the efficient carrying out of Part C of the Project, the Borrower shall: (a) continue to maintain, with resources and terms of reference satisfactory to the Bank, a technical assistance procurement unit within the Borrower's Ministry of Ownership Changes to be responsible for the coordination and supervision of the procurement of the goods and services under Part C of the Project in accordance with the action plan and guidelines referred to in paragraph 1 of this Part; and (b) employ consultants with qualification, experience and terms of reference satisfactory to the Bank, to assist in the carrying out of Part B of the Project.

D. Part D of the Project

1. The Borrower shall relend the proceeds of the Loan allocated from time to time to Category (4) to PDB under a subsidiary loan agreement to be entered into between the Borrower and PDB under terms and conditions which shall have been approved by the Bank and which shall include those set forth in the Annex to this Schedule.

2. The Borrower shall: (a) cause PDB to perform in accordance with the provisions of the Project Agreement all the obligations of PDB therein set forth, take and cause to be taken all action, including the provision of funds, facilities, permits, services and other resources, necessary or appropriate to enable PDB to perform such obligations, and not take or permit to be taken any action which would prevent or interfere with such performance; and (b) exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Bank and the Borrower and to accomplish the purpose of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

3. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part D of the Project shall be carried out by PDB pursuant to Section 2.04 of the Project Agreement.

ANNEX TO SCHEDULE 5

Terms and Conditions of the
Subsidiary Loan Agreement

The provisions of this Annex shall apply for the purposes of paragraph 1 of Part D of Schedule 5 to this Agreement.

1. The principal amount of the Subsidiary Loan shall be:

(a) the equivalent of the aggregate amount of principal of all Sub-loans made to Beneficiaries either directly by PDB or through the Participating Banks under Part D of the Project;

(b) denominated in dollars and Deutsche Mark, with the portion thereof denominated in dollars being the sum total of the Sub-loans denominated in dollars, and with the portion thereof denominated in Deutsche Mark being the sum total of the Sub-loans denominated in Deutsche Mark;

2. The Portion of the Subsidiary Loan denominated in: (a) dollars shall be charged, on the principal amount thereof withdrawn and outstanding from time to time, interest, during each six-month period commencing on June 1 and December 1 of each calendar year, at a rate equal to LIBOR plus a margin, as shall be calculated by the Borrower on the basis of guidelines acceptable to the Bank; and (b) Deutsche Mark shall be charged, on the principal amount thereof withdrawn and outstanding from time to time, interest, during each six-month period commencing on January 1 and July 1 of each calendar year, at a rate equal to FIBOR, plus a margin, as shall be calculated by the Borrower on the basis of guidelines acceptable to the Bank.

3. The Subsidiary Loan shall be repaid to the Borrower over a period of 17 years, inclusive of a grace period of five years.

4. For the purposes hereof, the terms "Sub-loan", "Beneficiary" and "Participating Bank" shall have the respective meanings assigned to them in paragraphs (a), (d), and (b) of Section 1.01 of the Project Agreement.

SCHEDULE 6

Special Accounts A and B

1. For the purposes of this Schedule:

(a) the term "eligible Category" means, in respect of the Special Account A, Category (3), and, in respect of the Special Account B, Category (4);

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

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

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the said 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 respective 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 said Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the said Special Account, the Borrower shall furnish to the Bank requests for deposits therein 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 said 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 thereof for eligible expenditures.

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

4. For each payment made by the Borrower out of each of the

Special Accounts A and B, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account A or the Special Account B:

(a) if, at any time, the Bank shall have determined that all further withdrawals under the respective eligible Category should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the respective eligible Category, 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 expenditures to be financed thereunder shall equal the equivalent of twice the amount of the respective Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the respective eligible Category shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the respective 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 A or the Special Account B: (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 respective 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 respective 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 respective 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 A or the Special Account B.

(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.

