Loan Agreement

(Second Road Maintenance and Rehabilitation Project)

between

REPUBLIC OF POLAND

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 26, 2005
LOAN AGREEMENT

AGREEMENT, dated April 26, 2005, between the REPUBLIC OF POLAND (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter of development policy from the Borrower, dated February 24, 2004, describing a program which sets forth the guiding principles that the Borrower shall follow in relation to its general responsibilities for the road sector and in relation to the specific responsibilities of the General Directorate for Roads and Motorways (GDDKiA, as further defined in paragraph (e) of Section 1.02 to this Agreement) with a view to encourage provision of an efficient and sustainable road network capable of supporting the Borrower’s national socio-economic goals (the Program) and declaring the Borrower’s commitment to the execution of such Program;

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

(C) by an agreement dated February 28, 2004 between the Borrower and the European Investment Bank (the EIB) (the EIB Finance Contract Agreement), the EIB has agreed to make a finance contract to the Borrower in a principal amount of one hundred fifty million Euro (EUR 150,000,000) part of which will assist in financing part of the cost of Part A of the Project on the terms and conditions set forth in the EIB Finance Contract Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004) with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:
Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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

(b) “Eligible Expenditures” means the expenditures for goods, works, consultants’ 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) “Fiscal Year” means the twelve (12) month period corresponding to any of the Borrower’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(e) “GDDKiA” means the Borrower’s General Directorate for National Roads and Motorways, a central body of the Borrower’s administration falling under the supervision of the MOI (as hereinafter defined in paragraph (h) of this Section), and composed of its headquarters office in Warsaw and its sixteen (16) regional offices;

(f) “HDM-4 System” means the Highway Development and Management Computerized System within the GDDKiA providing information for the analysis of road management and investment alternatives;

(g) “Monitoring and Evaluation Indicators” means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the Borrower under the Project to measure the progress in the implementation of the Project and the degree to which the objectives thereof are being achieved;

(h) “MOI” means the Borrower’s Ministry of Infrastructure, or any successor thereto;

(i) “Operational Manual” means the Operations Manual adopted by the Borrower on June 10, 2004, under the Bank-financed Road Maintenance and Rehabilitation Project (Loan Agreement No. 7223-POL dated April 7, 2004) and to be amended and updated pursuant to Section 6.01 of this Agreement; which may be amended from time to time with the Agreement of the Bank;
(j) “Procurement Plan” means the Borrower’s procurement plan, dated February 11, 2005 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(k) “Project Coordination Unit” and “PCU” means the Project Coordination Unit established by the Borrower within the MOI under the Bank-financed Road Maintenance and Rehabilitation Project (Loan Agreement No. 7223-POL dated April 7, 2004);

(l) “Resettlement” means: (i) the involuntary (i.e., an action that may be taken without a person’s informed consent or power of choice) taking of land, including anything growing on or permanently affixed to such land, such as buildings and crops, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the affected persons, and encompassing restrictions on the use of resources imposed on people living outside a park or protected area, or on those who continue living inside the park or protected area during and after Project implementation;

(m) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(n) “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;

(o) “Road Maintenance and Rehabilitation Transfers” means the amount, consisting of 62% out of the proceeds of the Loan and 38% 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; 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 the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan and Road Maintenance and Rehabilitation Transfers under Part A of the Project.

Section 2.03. The Closing Date shall be December 31, 2007 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 percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than sixty (60) days after the Effective Date.

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 and commitment 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 two installments of fifty million Euro (EUR 50,000,000) each to be made on April 15, 2011 and October 15, 2018, respectively.

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 declares its commitment to the objectives of the Project and, to this end, shall, through the MOI, cause the GDDKiA to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental 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 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 the goods, works and services required for the Project and to be financed out of the proceeds
of the Loan shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank’s approval.

(c) Without prejudice to the provisions of Section 6.03 (d) of the General Conditions (and terms of paragraph 1.13 of the Guidelines referred to in Schedule 3 to this Agreement and paragraph 1.18 of the Consultant Guidelines referred to in Schedule 3 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 two percent (62%) 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 the GDDKiA 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 the GDDKiA 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 and 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 the 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 the GDDKiA 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 Section III of Schedule 4 to this Agreement, the Borrower, through the MOI, shall cause the GDDKiA to 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 A of the Project, the Borrower through MOI shall cause GDDKiA to prepare and submit to the Bank monthly financial report in form and substance satisfactory to the Bank, within thirty (30) 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 has 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 event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Borrower, through the MOI, shall have caused the GDDKiA to adopt amendments to the Operations Manual in form and substance 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 of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions, including inter alia, reallocation of the proceeds of the Loan among the Categories set forth in the table in Part A.1 of Schedule 1 to this Agreement.

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:    Telex:    Facsimile:
MINF    825592 minf pl or (48-22) 826 6670
Poland    814386 minf pl

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:    Facsimile:
INTBAFRAD    248423 (MCI) or (1-202) 477-6391
Washington, D.C.    64145 (MCI)
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/ Wiesław Szczuka

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Daniela Gressani

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Euro)</th>
<th>% of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Road Maintenance and Rehabilitation Transfers</td>
<td>96,000,000</td>
<td>62%</td>
</tr>
<tr>
<td>(2) Goods under Part B of the Project</td>
<td>3,700,000</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>(3) Consultants’ services under Part B of the Project and for auditing services</td>
<td>300,000</td>
<td>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</td>
</tr>
</tbody>
</table>

TOTAL 100,000,000

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, works 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, works 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 a national of a territory of any country other than that of the Borrower;

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

(f) the term “local individual consultant” means an individual consultant who is a national of, or is resident in 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, except that withdrawals, in an aggregate amount not exceeding ten million Euro (EUR 10,000,000), may be made in respect of Category (1) 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, 2005; and (b) any expenditures under any Category in the table in paragraph 1 above, unless the Bank has received payment in full of the front-end fee referred to in Section 2.04 of this Agreement.

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: (i) goods costing less than EUR 500,000 equivalent per contract; (ii) works costing less than EUR 6,000,000 equivalent per contract; (iii) services of consulting firms under contracts costing less than EUR 160,000 equivalent per contract; and (iv) services of individual consultants 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 any 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 statement with the projected sources and applications of funds 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.5 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 subparagraph (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 20,000,000 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: (i) the amount so requested; and (ii) the amount which the Bank has determined, based on the reports referred to in Part A.5 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 assist the Borrower in continuing improving the effectiveness of the country’s national road rehabilitation and maintenance systems, with emphasis on quality, efficiency, financial viability and road user satisfaction, by: (i) further increasing the percentage of national roads in good condition; (ii) establishing a reliable and stable funding for the national road maintenance and rehabilitation network; and (iii) improving the capacity within GDDKiA to operate efficiently and effectively.

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: Road Maintenance and Rehabilitation Program

Carrying out of the Road Maintenance and Rehabilitation Program of maintenance, rehabilitation, strengthening and reconstruction of existing roads selected for financing under GDDKiA’s 2005-2006 budget.

Part B: GDDKiA Management Information System

Implementation of a modern management and information system (MIS) within GDDKiA that would properly integrate all data necessary to efficiently carry out GDDKiA’s activities (including technical, financial, human resources and contract related data) and support all core functions and decision-making processes of GDDKiA.

* * *

The Project is expected to be completed by June 30, 2007.
SCHEDULE 3

Procurement and Consultants’ Services

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than EUR 500,000 equivalent per contract and works and services (other than consultant services) estimated to cost less than EUR 6,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

   (a) with respect to eligible contracts procured under the Borrower’s 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 following clarifications 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 Borrower’s Law 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 for procurement of goods, works and technical services set forth in said Law with the following clarifications required for compliance with the Procurement 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. **Shopping or Request for Quotations.** Goods, works and services (other than consultant services) estimated to cost less than EUR 60,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping or goods, and services (other than consultant services) estimated to cost less than EUR 60,000 equivalent per contract may be procured under contracts awarded on the basis of Request for Quotation provisions with respect to eligible contracts procured under the Public Procurement Law, dated January 29, 2004.

3. **Direct Contracting.** Goods, works and services (other than consultant services) for road maintenance and rehabilitation: (i) estimated to cost less than EUR 6,000 equivalent per contract may be procured on the basis of provisions of the Law on Public Procurement dated January 29, 2004; and (ii) estimated to cost less than EUR 600,000 equivalent per contract, which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. **Particular Methods of Procurement of Consultants’ Services**

A. **Quality- and Cost-based Selection.** Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than EUR 160,000 equivalent per contract may comprise entirely national consultants.

B. **Other Procedures**

1. **Least-cost Selection.** Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.
2. **Selection Based on Consultants’ Qualifications.** Services estimated to cost less than EUR 160,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. **Single Source Selection.** Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection and estimated to cost less than EUR 100,000, may, with the Bank’s prior agreement, be procured in accordance with the provisions of paragraph 3.9 through 3.13 of the Consultant Guidelines.

4. **Individual Consultants.** Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines.

**Section IV. Review by the Bank of Procurement Decisions**

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for goods, works and technical services (other than consultant services) procured on the basis of International Competitive Bidding; (b) each contract for consultants’ services provided by a firm estimated to cost the equivalent of EUR 160,000 or more; (c) each contract procured under Section II.B.3(ii) and Section III.B.3 above; and (d) each contract for the employment of individual consultants estimated to cost the equivalent of EUR 100,000 or more. All other contracts shall be subject to Post Review by the Bank; provided, however, that the terms of reference for each contract provided by a firm and for the employment of individual consultants shall be furnished to the Bank for its prior review and approval.
SCHEDULE 4

Implementation Program

Section I: Organizational Arrangements

1. Ministry of Infrastructure

The MOI shall be responsible for overall Project management and coordination through the Project Coordination Unit, assisted as required by GDDKiA.

2. Project Coordination Unit

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. Specifically, the PCU shall be assign responsibility for overall Project coordination, including, *inter alia*: (i) consolidation of all reporting requirements under the Project, including the annual work plan under the Road Maintenance and Rehabilitation Program and the annual progress reports referred to in paragraph 1 of Section III of this Schedule; (ii) management of the Special Account referred to in Part B of Schedule 1 to this Agreement; (iii) arrangement for the audit of records and accounts of the Project; and (iv) carrying out of monitoring and evaluation activities under the Project.

3. GDDKiA

The Borrower, through the MOI, shall assign to the GDDKiA responsibility for daily Project management and coordination activities, including: (i) preparation of disbursement applications under the Loan; (ii) maintenance of records and accounts related to the Project; and (iii) participation in administration of bidding procedures and contracts under the Project.

Section II: Implementation Modalities

1. Operational Manual

(a) The Borrower, through the MOI, shall cause the GDDKiA to take all action required to carry out the Project in accordance with the requirements set forth or referred to in the Operational Manual, including, *inter alia*: (i) the procedures for the selection, carrying out, monitoring and evaluation of the maintenance and rehabilitation of works thereunder; (ii) any requirements relating to environmental and social standards satisfactory to the Bank and those required to enforce and monitor the strict adherence by each contractor under Part A of the Project to the measures specially designed to ensure that the works in question do not cause or result in Resettlement; and (iii) all applicable
laws and regulations of the Borrower relating to work and road safety and environmental protection, ensuring adequate information regarding the above is included in the FMRs for the Project.

(b) Except as the Bank shall otherwise agree, the Borrower, through the MOI, shall ensure that the GDDKiA do not assign, amend, abrogate or waive the Operations Manual or any provision thereof.

2. Selection of Expenditures for National Roads

The Borrower, through the MOI and with the assistance of the HDM-4 System, shall determine, on the basis of proposals submitted by GDDKiA, the overall annual program of expenditures for national roads to be financed under Part A of the Project.

Section III: Progress and Evaluation and Monitoring Reporting

Progress Reports

Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower, through the MOI, shall cause the GDDKiA, on or about February 28 of each year until Project completion, to prepare and furnish to the Bank a progress report, of such scope and in such detail as the Bank shall reasonably request, describing, in accordance with the Monitoring and Evaluation Indicators, the progress achieved in the implementation of the Project during the preceding calendar year.