

CONFORMED COPY

LOAN NUMBER 3450 KO

(Pusan and Taejon Sewerage Project)

between

REPUBLIC OF KOREA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 21, 1992

LOAN NUMBER 3450 KO

LOAN AGREEMENT

AGREEMENT, dated May 21, 1992, between REPUBLIC OF KOREA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) Part A of the Project will be carried out by Pusan City Government (Pusan) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Pusan part of the proceeds of the Loan as provided in this Agreement;

(C) Part B of the Project will be carried out by Taejon City Government (Taejon) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Taejon 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, in the Pusan Project Agreement of even date herewith between the Bank and Pusan, and in the Taejon Project Agreement of even date herewith between the Bank and Taejon;

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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Pusan" means the Pusan City Government;

(b) "Pusan Project Agreement" means the agreement between the Bank and Pusan 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 Pusan Project Agreement;

(c) "Taejon" means the Taejon City Government;

(d) "Taejon Project Agreement" means the agreement between the Bank and Taejon 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 Taejon Project Agreement;

(e) "Pusan Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Pusan pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Pusan Subsidiary Loan Agreement;

(f) "Taejon Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Taejon pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Taejon Subsidiary Loan Agreement;

(g) "Pusan IBRD Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(h) "Taejon IBRD Special Account" means the account referred to in Section 2.02 (c) of this Agreement; and

(i) "Sewerage Master Plan" means each of the plans which outlines the development of the sewer systems and treatment of wastewater in Pusan and Taejon respectively, each such plan in effect until 2001.

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 forty million dollars (\$40,000,000), 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 reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of Part A of the Project, open and maintain in dollars a special deposit account in the Korea Exchange Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Pusan IBRD Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) The Borrower shall, for the purposes of Part B of the Project, open and maintain in dollars a special deposit account in the Korea Exchange Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Taejon IBRD Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1995, 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 per cent ($3/4$ 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 February 15 and August 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause:

(i) Pusan to perform in accordance with the provisions of the Pusan Project Agreement all the obligations of Pusan therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Pusan to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance, and

(ii) Taejon to perform in accordance with the provisions of the Taejon Project Agreement all the obligations of Taejon therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Taejon to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend an amount equivalent to \$20,000,000 out of the proceeds of the Loan to Pusan under the Pusan Subsidiary Loan Agreement to be entered into between the Borrower and Pusan, under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph 1 of the Schedule to the Pusan Project Agreement.

(c) The Borrower shall relend an amount equivalent to \$20,000,000 out of the proceeds of the Loan to Taejon under the Taejon Subsidiary Loan Agreement to be entered into between the Borrower and Taejon, under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph 1 of the Schedule to the Taejon Project Agreement.

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

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

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Pusan and Taejon pursuant to Section 2.03 of each of the Pusan Project Agreement and the Taejon Project Agreement, respectively.

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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 sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section including those for the Pusan and Taejon IBRD 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, including 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; 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.

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) Pusan or Taejon shall have failed to perform any of their respective obligations under the Pusan and Taejon Project Agreements.

(b) 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 Pusan or Taejon will be able to perform their respective obligations under the Pusan and Taejon Project Agreements.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

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 Pusan Subsidiary Loan Agreement has been executed on behalf of the Borrower and Pusan; and

(b) the Taejon Subsidiary Loan Agreement has been executed on behalf of the Borrower and Taejon.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Pusan Project Agreement has been duly authorized or ratified by Pusan, and is legally binding upon Pusan in accordance with its terms;

(b) that the Taejon Project Agreement has been duly authorized or ratified by Taejon, and is legally binding upon Taejon in accordance with its terms;

(c) that the Pusan Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and Pusan and is legally binding upon the Borrower and Pusan in accordance with its terms; and

(d) that the Taejon Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and Taejon and is legally binding upon the Borrower and Taejon in accordance with its terms.

Section 6.03. 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.

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
Kwachon
Republic of Korea

Cable address:

MOF
Kwachon, Korea

Telex:

K 23243

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

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

REPUBLIC OF KOREA

/s/ Koo, Bohn Young
By

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

/s/ G. Kaji
By

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the

amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Equipment and materials for Pusan under Part A of the Project	20,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(2) Equipment and materials for Taejon under Part B of the Project	20,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
TOTAL	40,000,000 =====	

2. For the purposes of this Schedule:

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

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

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

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to enhance the environmental conditions of Pusan and Taejon; and (ii) to support technological and institutional improvement in the sewerage sector.

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: Pusan

1. Construction of the first phase of a sewage treatment plant at Yongho, a sewage pumping station, and interceptors.

2. Utilization of technical services to update the Pusan Sewerage Master Plan, and to supervise construction of the sewage treatment plant.

Part B: Taejon

1. Construction of the second phase of an existing sewage treatment plant at Wonchon Dong, and interceptors.
2. Utilization of technical services to update the Taejon Sewerage Master Plan, and to supervise construction of the sewage treatment plant.

* * *

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 15 and August 15	2,000,000
Beginning August 15, 1997 ending on February 15, 2007	

* 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	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement

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 for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in the Republic of Korea 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

Equipment and materials estimated to cost the equivalent of \$300,000 or less per contract, up to an aggregate amount equivalent to \$1,500,000 for each Part A and Part B respectively, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory 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 for estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Pusan and Taejon IBRD Special Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the said Special Accounts in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Pusan and Taejon IBRD Special Accounts, 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 Schedules 5 and 6 to this Agreement.

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

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

SCHEDULE 5

Pusan IBRD Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Part A of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Category in

accordance with the provisions of Schedule 1 to this Agreement;
and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited in the Pusan IBRD Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Pusan IBRD 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 Pusan IBRD Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Pusan IBRD Special Account shall be made as follows:

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

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

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

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

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

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

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

(b) once the total unwithdrawn amount of the Loan allocated to the 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 Part A of the Project, shall equal the equivalent of twice the amount of

the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible 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 Pusan 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 Pusan IBRD Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Pusan IBRD 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 Pusan IBRD 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 Pusan IBRD 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 Pusan IBRD Special Account.

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

SCHEDULE 6

Taejon IBRD Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited in the Taejon IBRD Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Taejon IBRD 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 Taejon IBRD Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Taejon IBRD Special Account shall be made as follows:

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

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

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

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

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

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

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

(b) once the total unwithdrawn amount of the Loan allocated to the 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 Part B of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible 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 Taejon IBRD 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 Taejon IBRD Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank

may request; or (B) deposit into the Taejon IBRD 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 Taejon IBRD 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 Taejon IBRD 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 Taejon IBRD Special Account.

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

