

CONFORMED COPY

LOAN NUMBER 4385 KO

Loan Agreement

(Financial and Corporate Restructuring Assistance Project)

between

REPUBLIC OF KOREA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated September 14, 1998

LOAN NUMBER 4385 KO

LOAN AGREEMENT

AGREEMENT, dated September 14, 1998, between REPUBLIC OF KOREA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS 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;

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 Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997 (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings wherever used herein:

(a) "FSC" means the Borrower's Financial Supervisory Commission, an independent government supervisory agency established under and operating pursuant to the Borrower's Law Number 5490, dated December 31, 1997, and any successor thereto.

(b) "FSC Special Account" means the account established for the purpose of Parts A, D and G(1) of the Project and referred to in Section 2.02(b)(i) of this Agreement.

(c) "KFTC" means the Korean Fair Trade Commission, an independent government agency, established pursuant to the Borrower's Fair Trade Act, dated December 30, 1996, and any successor thereto.

(d) "KICPA" means the Korean Institute of Chartered Public Accountants, a regulated professional association registered with MOFE under the Borrower's Chartered Public Accountant Act and operating under its Charter dated December 11, 1954, and any successor thereto.

(e) "MOFE" means the Ministry of Finance and Economy of the Borrower, and any successor thereto.

(f) "MOFE Special Account" means the account established for the purpose of Parts B, C, E, F and G(2) of the Project and referred to in Section 2.02(b)(ii) of this Agreement.

(g) "MOJ" means the Ministry of Justice of the Borrower, and any successor thereto.

(h) "Special Accounts" means, collectively, the FSC Special Account and the MOFE Special Account.

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, an amount equal to forty eight million Dollars (\$48,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars: (i) a special deposit account for the purpose of Parts A, D and G(1) of the Project (the FSC Special Account), and (ii) a special deposit account for the purpose of Parts B, C, E, F and G(2) of the Project (the MOFE Special Account), each in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out 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, 2002 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 ($\frac{3}{4}$ 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

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

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually on April 15 and October 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative and financial 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 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.

Section 3.03. For the purposes of Section 9.08 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 designed to ensure the continued achievement of the Project's objectives; 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 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 Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) 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 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

Effective Date; Termination

Section 5.01. 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) that the project implementation units within MOFE and FSC, referred to in Paragraph 2(a) and (b), respectively, of Schedule 5 to this Agreement, shall have been established with terms of reference and budgetary resources acceptable to the Bank and with competent staff in adequate numbers; and

(b) that the project steering committee referred to in Paragraph 2(c) of Schedule 5 to this Agreement shall have been established with terms of reference and composition acceptable to the Bank.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance and Economy of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Economy
Kwachon, Kyonggido
Republic of Korea

Cable address:	Telex:
MOFE Kwachon	K23243

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 (MCI) or 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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF KOREA

By /s/ Dong-Kyu Shin

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jean-Michel Severino

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 Dollars)	% of Expenditures to be Financed
(1) Consultants' services and training:		100%
(a) under Parts A, D and G(1) of the Project	37,900,000	
(b) under Part B(1) of the Project	940,000	
(c) under Part B(2) of the Project	500,000	
(d) under Part C of the Project	800,000	
(e) under Part E of the Project	1,500,000	
(f) under Part F of the Project	420,000	
(g) under Part G(2) of the Project	100,000	
(2) Goods under Part C of the Project	1,200,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Unallocated	4,640,000	
TOTAL	48,000,000	

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,

except that withdrawals, in an aggregate amount not exceeding the equivalent of \$4,800,000, may be made on account of payments made for expenditures before that date but after June 26, 1998; and

(b) expenditures under Category 1(c) set forth in the table in paragraph 1 of this Schedule, until the Bank shall have received evidence satisfactory to the Bank that MOFE and KICPA have entered into a cooperation agreement satisfactory to the Bank pursuant to Paragraph 7(a) of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$300,000 equivalent each; (ii) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each; (iii) contracts for the employment of individuals valued at less than \$50,000 equivalent each; and (iv) training, regardless of the cost thereof; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to: (i) reduce the risk of systemic failure in its banking and corporate sectors and risks emanating from public foreign debt; (ii) improve the financial soundness and reduce other structural weaknesses of domestic banks and corporations; and (iii) deepen the global market orientation and transparency of its state institutions, banks and corporations, through implementation of financial and corporate sector reforms.

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: Financial Sector Supervision and Crisis Management

(1) Strengthening the capacity of FSC to supervise the Borrower's financial sector through: (a) development and implementation of strategies, policies and procedures for the adoption and enforcement of coordinated financial sector prudential regulations; and (b) development and implementation of an efficient organizational structure, including operational policies, human resource development programs and management information systems; with the provision of consultants' services and training.

(2) Development and implementation of financial crisis management policies and procedures; with the provision of consultants' services and training.

Part B: Capital Markets Development

(1) Enhancing the development of the Borrower's securities and bond markets through: (a) reform of the securities market regulatory framework to place a greater emphasis on self-regulation; (b) rationalization of the securities markets to improve efficiency, safeguards, transparency, innovation and competitiveness in the market; (c) analysis of bond market demand and formulation of policy recommendations for primary bond market development; (d) provision of training for selected technical staff of MOFE and FSC in issues related to bond markets; (e) organization of government bond auctions and standardization of instruments; and (f) improving secondary bond market liquidity by implementation of a market maker network and related market enhancements; with the provision of consultants' services and training.

(2) Improving the transparency of accounting and auditing practices, enhancing the institutional framework for accounting and audit and strengthening financial oversight in the private sector, through reviewing measures for: (a) development of an enhanced continuing professional education program for accountants; (b) enhancement of the system of professional ethics and code of conduct for qualified accountants; (c) rationalization of the institutional framework for setting standards for and regulating and overseeing the accounting and auditing profession; (d) extension of external audit requirements to additional entities and introduction of market-based contracting for auditing; and (e) the feasibility of the introduction of audit committees of boards of directors of listed companies, banks and other financial

institutions; with the provision of consultants' services.

Part C: Debt Management Improvement

(1) Improving Borrower's public sector debt management through: (a) strengthening MOFE's technical capacity to identify and evaluate financial risks; (b) formulating measures of financial risk and recommended risk levels; (c) designing and implementing a financial strategy to achieve recommended risk levels; and

(2) establishment of an early-warning system model to monitor indicators of foreign exchange risk trends; with the provision of consultants' services, training and equipment.

Part D: Corporate Restructuring

Strengthening the capacity of financial institutions within the territory of the Borrower to manage the workout of large corporate debts through: (a) development of detailed recommendations for voluntary corporate and financial restructuring; and (b) development of business diagnostic procedures and restructuring recommendations for corporations undergoing voluntary workouts; with the provision of consultants' services.

Part E: Insolvency and Corporate Governance

(1) Enhancement of the Borrower's framework for corporate insolvency procedures through: (a) conduct of a diagnostic review of the insolvency system and preparation of a work plan for development and implementation of reforms; (b) preparation of legislation to carry out the recommended reforms of the present system; (c) provision of training to judges, court officials, insolvency practitioners and selected officials of MOJ in insolvency issues; and (d) conduct of a public information campaign with respect to the objectives and benefits of a reliable insolvency system; with the provision of consultants' services and training.

(2) Development of a mechanism to facilitate monitoring by market participants and stakeholders of corporate performance, through: (a) conduct of a study of the role and functions of boards of directors; (b) provision of training to selected officials of MOJ and MOFE in corporate governance issues; (c) preparation of changes to applicable laws to strengthen the duties of directors to act in the interests of the company and to reduce or eliminate barriers to the exercise of minority shareholder rights; (d) conduct of a study of the introduction of class action law suits by shareholders of listed companies; and (e) conduct of a workshop on corporate governance reform and to present the findings of said studies; with the provision of consultants' services and training.

Part F: Competition Policy

Improving the effectiveness of the Borrower's competition policy and strengthening the KFTC through adoption and application of selected international competition policy practices; with the provision of consultants' services and training.

Part G: Project Implementation Support

(1) Enhancement of the capacity of the project implementation unit within FSC for Project implementation, with the provision of consultants' services and training.

(2) Enhancement of the capacity of the project implementation unit within MOFE for Project implementation, with the provision of consultants' services and training. * *
* The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
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On each April 15 and October 15	
beginning April 15, 2004	
through April 15, 2013	2,400,000
On October 15, 2013	2,400,000

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

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

Part B: International Competitive Bidding

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

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants Qualifications

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

2. Single Source Selection

Services for urgently required financial sector crisis monitoring under Part A(2) of the Project, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by

the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

3. Post Review

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

SCHEDULE 5

Implementation Program

1. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank no later than the last day of each calendar quarter during the first year of Project implementation and no later than the last day of each calendar semester thereafter, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report;

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 1999 a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(d) review with the Bank, by November 30, 1999, or such later date as the Bank shall request, the report referred to in subparagraph (c) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

2. The Borrower shall maintain, until completion of the Project;

(a) a project implementation unit under MOFE, with terms of reference and budgetary resources acceptable to the Bank and with competent staff in adequate numbers, for the purpose of carrying out Parts B, C, E, F and G(2) of the Project;

(b) a project implementation unit under FSC, with terms of reference and budgetary resources acceptable to the Bank and with competent staff in adequate

numbers, for the purpose of carrying out Parts A, D and G(1) of the Project; and

(c) a project steering committee, with terms of reference and composition acceptable to the Bank, for the purpose of overall coordination of the implementation of the Project.

3. Financial Sector Supervision and Crisis Management

The Borrower shall, through FSC, carry out a program of training under Part A of the Project in accordance with a plan and in a manner satisfactory to the Bank.

4. Capital Markets Development and Debt Management Improvement

The Borrower shall, through MOFE, and in close collaboration with Borrower's Task Force on Advancement of Capital Markets:

(a) conduct the bond market demand analysis under Part B(1)(c) of the Project under terms of reference and in accordance with a schedule satisfactory to the Bank; and

(b) carry out a program of training under Parts B and C of the Project in accordance with a plan and in a manner satisfactory to the Bank.

5. Corporate Restructuring

In carrying out Part D of the Project, the Borrower shall, through FSC:

(a) ensure that an initial review of the Borrower's regulatory framework with respect to the environmental impact, including potential environmental liabilities, resulting from enterprise closure, bankruptcy or sale is conducted and furnished to the Bank; and

(b) ensure that consultants engaged to provide assistance on corporate restructuring matters take into account such impact and potential liabilities in light of such framework.

6. Corporate Governance and Insolvency

(a) In carrying out Part E(1) of the Project, the Borrower shall, through MOJ: (i) establish a steering committee, with terms of reference and composition satisfactory to the Bank, for the overall coordination such Part; (ii) carry out a program of training in accordance with a plan and in a manner satisfactory to the Bank; and (iii) conduct the diagnostic review under Part E(1)(a) of the Project under terms of reference and in accordance with a schedule satisfactory to the Bank.

(b) In carrying out Part E(2) of the Project, the Borrower shall, through MOJ: (i) establish a steering committee, with terms of reference and composition satisfactory to the Bank, for the overall coordination of such Part; (ii) carry out a program of training in accordance with a plan and in a manner satisfactory to the Bank; and (iii) conduct the studies under Parts E(2)(a) and E(2)(d) of the Project under terms of reference and in accordance with a schedule satisfactory to the Bank .

7. Accounting and Auditing Systems

In carrying out Part B(2) of the Project, the Borrower shall, through MOFE:

(a) enter into an agreement with KICPA, on terms and conditions satisfactory to the Bank, under which KICPA agrees to cooperate with MOFE in the implementation of such Part; and

(b) conduct the review of measures under such Part under terms of reference and in accordance with a schedule satisfactory to the Bank.

8. Competition Policy

The Borrower shall, through KFTC, carry out a program of training under Part F of the Project in accordance with a plan and in a manner satisfactory to the Bank.

9. The Borrower shall, no later than the last day of each calendar quarter, commencing September 30, 1998, during the first year of Project implementation, and no later than the last day of each calendar semester thereafter, prepare and furnish to the Bank for approval a draft work plan for the carrying out of the Project during the subsequent two calendar quarters, including detailed training programs to be implemented during such period under the Project.

10. The Borrower shall, no later than October 1, 1998, in consultation with the Bank, design and implement systems of Project financial management and accounting acceptable to the Bank.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means in respect of: (i) the MOFE Special Account, Categories (1)(b), (1)(c), (1)(d), (1)(e), (1)(f), (1)(g) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and (ii) the FSC Special Account, Category (1)(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means in respect of: (i) the MOFE Special Account, an amount equivalent to \$500,000; and (ii) the FSC Special Account, an amount equivalent to \$3,000,000, to be withdrawn from the Loan Account and deposited into the respective Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount in respect of: (A) the MOFE Special Account, equivalent to \$250,000; and (B) the FSC Special Account, equivalent to \$1,500,000, until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for: (1) the eligible Categories in respect of the MOFE Special Account shall be equal to or exceed the equivalent of \$1,000,000; and (2) the eligible Categories in respect of the FSC Special Account shall be equal to or exceed the equivalent of \$5,000,000.

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 respective 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 respective Special Account of an amount or amounts 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 into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Bank requests for deposits into the respective 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 respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective 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 any 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;

(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 the records and accounts for the Special Accounts;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to 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 Categories for the respective Special Account 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 any 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 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 any 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 any 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 Accounts.

(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.

