

CONFORMED COPY

LOAN NUMBER 3035 PO

(Tras-os-Montes Regional Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

INSTITUTO FINANCEIRO DE APOIO AO
DESENVOLVIMENTO DA AGRICULTURA E PESCAS

Dated August 30, 1989

LOAN NUMBER 3035 PO

PROJECT AGREEMENT

AGREEMENT, dated August 30, 1989, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and INSTITUTO FINANCEIRO DE APOIO AO DESENVOLVIMENTO DA AGRICULTURA E PESCAS (IFADAP).

WHEREAS (A) by the Loan Agreement of even date herewith between Republic of Portugal (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount in various currencies equivalent to ninety million dollars (\$90,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that IFADAP agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by an agency agreement to be entered into between the Borrower and IFADAP, a part of the proceeds of the loan provided for under the Loan Agreement will be made available to IFADAP for relending to CCAMs and PBIs on the terms and conditions set forth in said IFADAP Agency Agreement; and

WHEREAS, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of Part B of the Project; Management and Operations of IFADAP

Section 2.01. IFADAP declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part B of the Project and conduct its operations and affairs, in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with its Statutes.

Section 2.02. (a) The CCAMs selected to participate in the Project and PBIs shall be banking institutions with sound management, financial and Project implementation capability.

(b) IFADAP shall relend to the CCAMs and PBIs the proceeds of the Loan made available to IFADAP by the Borrower under the IFADAP Agency Agreement for the purposes of carrying out Part B of the Project under CCAM Loan Agreements and PBI Loan Agreements to be entered into between IFADAP and the CCAMs and PBIs, respectively, on terms and conditions which shall have been agreed with the Bank, including, inter alia, that:

- (i) the CCAM or PBI be permitted to refinance from IFADAP any Sub-loan made by it for the purposes specified in Part B of the Project;
- (ii) when submitting a Sub-loan for refinancing, the PBI or CCAM notify IFADAP of the portion (not exceeding 90%) of the Sub-loan for which refinancing by IFADAP is requested and of the estimated dates on which disbursements of the Sub-loan will be required and their respective amounts;
- (iii) the CCAMs and PBIs pay IFADAP interest per annum on the outstanding principal amount of each Sub-loan at the relending rate, minus a spread of 1.5%;
- (iv) the amortization period of such relending under Part B (1) of the Project (vineyard restructuring) not exceed 15 years, including a grace period of 6 years, and the amortization period of such relending under Part B (2) of the Project (agroindustry) not exceed 9 years, including a grace period of 4 years; and
- (v) the CCAMs and PBIs:
 - (A) maintain separate accounts for the Sub-loans, and in the case of the CCAMs, have such accounts for each fiscal year audited by FENACAM, in accordance with appropriate auditing principles consistently applied, and
 - (B) make available to the Bank such other information concerning said accounts as well

as the audit thereof as the Bank shall from time to time reasonably request.

Section 2.03. (a) IFADAP undertakes that, unless the Bank shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in the Schedule to this Agreement.

(b) IFADAP shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank, the Borrower and IFADAP; (ii) comply with its obligations under this Agreement and the IFADAP Agency Agreement; and (iii) achieve the purposes of Part B of the Project.

Section 2.04. IFADAP shall duly perform all its obligations under the IFADAP Agency Agreement. Except as the Bank shall otherwise agree, IFADAP shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the IFADAP Agency Agreement or any provision thereof.

Section 2.05. (a) IFADAP shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Part B of the Project, the performance of its obligations under this Agreement and under the IFADAP Agency Agreement, and other matters relating to the purposes of the Loan.

(b) IFADAP shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part B of the Project, the accomplishment of the purposes of the Loan, or the performance by IFADAP of its obligations under this Agreement and under the IFADAP Agency Agreement.

Article III

Financial Covenants

Section 3.01. (a) IFADAP shall maintain procedures and records adequate to monitor and record the progress of Part B of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of IFADAP.

(b) IFADAP shall:

- (i) have its records, accounts and financial statements, including separate accounts for the loans to the CCAMs and PBIs (balance sheets, statements of income and expenses and related statements) 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: (A) certified copies of its financial statements for such year as so audited; and (B) 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, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE IV

Effective Date; Termination
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Bank and of IFADAP thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Loan Agreement shall terminate; or

(ii) a date 15 years after the date of this Agreement.

(b) If the Loan Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Bank shall promptly notify IFADAP of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

For IFADAP:

Instituto Financeiro de Apoio ao
Desenvolvimento da Agricultura e Pescas
Rua Dona Estefania, 71/77
1100 Lisbon
Portugal

Cable address:

IFADAP
Lisbon

Telex:

13022 IFADAP P

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of IFADAP, may be taken or executed jointly by any two members of IFADAP's Managing Board, or by such other person or persons as IFADAP's Managing Board shall designate in writing, and IFADAP shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several coun-

terparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Philippe Nouvel
Acting Regional Vice President
Europe, Middle East and North Africa

INSTITUTO FINANCEIRO DE APOIO AO
DESENVOLVIMENTO DA AGRICULTURA E PESCA

By /s/ J. E. Pereira Bastos
Authorized Representative

SCHEDULE

Lending Procedures and Terms and
Conditions of Sub-loans

A. Lending Procedures - Appraisal and Eligibility

1. Each Sub-borrower shall prepare, with the assistance of the DRATM extension service, the CCAMs, the PBIs or the GAEs, a Sub-loan application. IFADAP shall be responsible for approval of each Sub-loan application, including evaluation of the Sub-borrower's creditworthiness.

2. The CCAMs and PBIs shall be responsible for appraisal of Investment Projects and IFADAP shall be responsible for approval of Sub-loans.

3. Applications for Sub-loans for agroindustries and for vineyard restructuring in excess of 15 ha shall be supported by detailed feasibility studies or appraisal reports.

4. The first three Sub-loans in an amount more than the equivalent of \$50,000 and any Sub-loan in an amount more than the equivalent of \$2,000,000 shall be subject to the prior approval of the Bank.

5. Each appraisal report shall include:

- (a) an assessment of the technical feasibility, financial viability, commercial soundness and economic justification of the proposed Investment Project, including, as appropriate, an assessment of the export-marketing possibilities for the incremental production of the Investment Project;
- (b) where relevant, an evaluation of the Sub-borrower's creditworthiness, organization, management and financial structure, and of the technical staff and capacity for implementing the Investment Project and its operation;
- (c) a financial rate of return of not less than 13% for

any proposed Investment Project calculated in accordance with a methodology satisfactory to the Bank; and

- (d) the environmental impact of the Investment Project and the provision to be made for compliance with the environmental regulations of the Borrower and the EEC.

B. Terms and Conditions of Sub-loans

1. Terms of the Sub-loans shall be as follows:

(a) Contribution to Cost of Investment Project

Each Sub-borrower shall contribute not less than 15% of the cost of the Investment Project, including its own labor and materials.

(b) Rate of Interest

Each Sub-borrower shall pay interest per annum on the outstanding principal amount of each Sub-loan at the relending rate, which rate shall be positive in real terms.

(c) Amortization Period

The amortization period of each Sub-loan under Part B (1) of the Project (vineyard restructuring) shall not exceed 15 years, including a grace period of 6 years, and the amortization period of each Sub-loan under Part B (2) of the Project (agroindustry) shall not exceed 9 years, including a grace period of 4 years. Each such amortization and grace period shall be determined on the basis of the projected cash flow for each type of Investment Project.

2. Each Sub-loan shall be made on terms whereby the CCAM or PBI shall obtain, by written contract with the Sub-borrower or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and IFADAP, including the right to:

(a) require the Sub-borrower to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to the Loan Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Sub-borrower shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Sub-borrower to replace

or repair such goods;

- (e) require that the Sub-borrower provide adequate collateral for the Sub-loan in the form of a mortgage or lien on real estate or equipment;
 - (f) obtain all such information as the Bank or IFADAP shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Sub-borrower and to the benefits to be derived from the Investment Project; and
 - (g) suspend or terminate the right of the Sub-borrower to the use of the proceeds of the Loan upon failure by such Sub-borrower to perform its obligations under its contract with the CCAM or PBI, as the case may be.
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