

CONFORMED COPY

LOAN NUMBER 3035 PO

(Tras-os-Montes Regional Development Project)

between

REPUBLIC OF PORTUGAL

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated August 30, 1989

LOAN NUMBER 3035 PO

LOAN AGREEMENT

AGREEMENT, dated August 30, 1989, between REPUBLIC OF PORTUGAL (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 B of the Project will be carried out by Instituto Financeiro de Apoio ao Desenvolvimento da Agricultura e Pescas (IFADAP), and the Borrower will make available to IFADAP a part of the proceeds of the Loan as hereinafter provided; 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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

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

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

(c) "MAPA" means Ministerio da Agricultura, Pescas e AlimentacUo, the Ministry of Agriculture, Fisheries and Food, of the Borrower;

(d) "EEC" means the European Economic Community;

(e) "PBI" means a banking institution established and operating under the laws of the Borrower referred to in Section 2.02 (a) of the Project Agreement;

(f) "PBI Loan Agreement" means the agreement to be entered into by IFADAP, as agent of the Borrower, and a PBI, pursuant to Section 2.02 (b) of the Project Agreement, as the same may be amended from time to time with the approval of the Bank, for the purposes of relending to such PBI a portion of the proceeds of the Loan;

(g) "CCAM" means Caixa de Credito Agricola Mutuo, an agricultural credit cooperative established and operating under the laws of the Borrower referred to in Section 2.02 (a) of the Project Agreement;

(h) "CCAM Loan Agreement" means the agreement to be entered into by IFADAP, as agent of the Borrower, and a CCAM, pursuant to Section 2.02 (b) of the Project Agreement, as the same may be amended from time to time with the approval of the Bank, for the purposes of relending to such CCAM a portion of the proceeds of the Loan;

(i) "Sub-loan" means a loan made or proposed to be made by a PBI or a CCAM to a Sub-borrower for an Investment Project out of the proceeds of the Loan;

(j) "Sub-borrower" means a farmer, farmers association, agricultural cooperative or other investor;

(k) "Investment Project" means a specific investment project to be carried out by a Sub-borrower, utilizing the proceeds of a Sub-loan;

(l) "Project Area" means the area comprising the following municipalities: Chaves, Montalegre, Boticas, Valpacos, Vila Pouca de Aguiar, Braganca, Miranda do Douro, Vimioso, Vinhais, Alfandega da Fe, Carrazeda de Ansiaes, Mirandela, Macedo de Cavaleiros, Vila Flor, Vila Real, Alijo, Sabrosa, Murca, Santa Marta de PenaguiUo,

MesUo Frio, Peso da Regua, Lamego, SUo JoUo da Pesqueira, Tabuaco, Moimenta da Beira, Resende, CinfUes, Armamar, Tarouca, Penedono, Sernancelhe, Freixo de Espada a Cinta, Mogadouro, Torre de Moncorvo, Vila Nova de Foz Coa, Ribeira de Pena and Meda;

(m) "CCRN" means ComissUo de CoordenacUo da RegiUo do Norte, the Coordinating Commission of the Northern Region, established by Decree Law No. 494/79 of the Borrower, dated December 21, 1979, as amended from time to time;

(n) "DRATM" means DireccUo Regional de Agricultura de Tras-os-Montes, the Regional Directorate of Agriculture for Tras-os-Montes of MAPA, established by Decree Law No. 221/77 of the Borrower, dated May 28, 1977, as amended from time to time;

(o) "FENACAM" means FederacUo Nacional das Caixas de Credito Agricola Mutuo, the Federation of Agricultural Saving Cooperatives, established by Decree Law No. 69/81 of the Borrower, dated April 7, 1981;

(p) "GAES" means Gabinetes de Apoio Empresarial, the Entrepreneurial Support Cabinets, established by legal agreement between CCRN and Portuguese industrial associations;

(q) "GATs" means Gabinetes de Apoio Tecnico, the Cabinets of Technical Assistance, established by Decree Law No. 58/79 of the Borrower, dated March 29, 1979;

(r) "IDARN" means Instituto para o Desenvolvimento da Agricultura da RegiUo do Norte, the Institute for the Development of Agriculture in the Northern Region, established by legal agreement dated July 28, 1987;

(s) "Municipalities" means any of the municipalities in the Project Area, established and operating under the laws of the Borrower, listed in paragraph (l) of this Section;

(t) "SNPRCN" means Servico Nacional de Parques, Reservas e ConservacUo da Natureza, the National Service of Parks, Reserves and Conservation of Nature, established by Decree Law No. 130/86 of the Borrower, dated June 7, 1986;

(u) "Statutes of IFADAP" means Decree-Law No. 344/77 of the Borrower, dated August 19, 1977, as ratified by Law No. 14/78, dated March 23, 1978, as amended from time to time;

(v) "DAA" means Departamento de Acompanhamento e AvaliacUo, the Department of Monitoring and Evaluation, established by Decree-Law No. 130/86 of the Borrower, dated June 7, 1986;

(w) "DGHEA" means DireccUo Geral de Hidraulica e Engenharia Agricola, the General Directorate of Hydraulics and Rural Engineering, established by Decree-Law No. 221/77 of the Borrower, dated May 28, 1977;

(x) "reference rate" means the prevailing rediscount rate of the Banco do Portugal, plus a spread of 3.5%, as may be adjusted from time to time;

(y) "relending rate" means the rate of interest per annum on the outstanding principal amount of each Sub-loan, which rate shall be the reference rate less 2%;

(z) "positive in real terms" means higher than the inflation rate as measured by the Consumer Price Index published on a quarterly basis by the Instituto Nacional de Estatistica, the National Department of Statistics of the Borrower;

(aa) "agricultural parts of the Project" means Parts A, B, C (1) (a) and C (3), D, E, F (1) (a), F (2) and G (1) and (2) of the Project;

(bb) "non-agricultural parts of the Project" means Parts C (1) (b) and (c), C (2), F (1) (b) and (c) and G (3) of the Project;

(cc) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(dd) "Escudo" or "Esc." means the currency of the Borrower.

## 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, various currencies that shall have an aggregate value equivalent to the amount of ninety million dollars (\$90,000,000), 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 the Project, open and maintain in dollars a special account in a financial institution on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1997 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semi-annually on January 15 and July 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 or cause to be carried out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and agricultural 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: (i) establish and operate, with duly qualified and experienced staff, the organizational structure for the Project in accordance with Parts I and II of the Implementation Program set forth in Schedule 5 to this Agreement; and (ii) carry out or cause to be carried out the Project in accordance with Part III of the Implementation Program set forth in Schedule 5 to this Agreement.

(c) Without limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause IFADAP to perform in accordance with the provisions of the Project Agreement all the obligations of IFADAP therein set forth, shall take or cause to be taken all action, including the provisions of funds, facilities, services and other resources, necessary or appropriate to enable IFADAP to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(d) The Borrower shall make available to IFADAP an amount equivalent to \$35,000,000 out of the proceeds of the Loan under an agency agreement to be entered into between the Borrower and IFADAP, under terms and conditions which shall have been agreed with the Bank, and which shall provide, inter alia, that:

- (i) IFADAP relend such amount to the CCAMs and PBIs, for the purposes of Part B of the Project, under CCAM Loan Agreements and PBI Loan Agreements;
- (ii) IFADAP receive a fee of 1% per annum on the outstanding principal amount of the Sub-loans; and
- (iii) the foreign exchange risk on the proceeds of the Loan so relend be borne by the Borrower.

(e) The Borrower and the Bank shall review, not later than June 30 of each year, the relending rate, fee and spread referred to in paragraph (d) above, Section 2.02 of the Project Agreement and Paragraph B.1 (b) of the Schedule to the Project Agreement, and the Borrower shall adjust such relending rate in a manner satisfactory to the Bank as necessary to ensure that such relending rate continues to be positive in real terms.

(f) The Borrower shall exercise its rights under the IFADAP Agency Agreement 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 the IFADAP Agency Agreement or any provision thereof.

Section 3.02. (a) The Borrower shall employ duly qualified and experienced staff in adequate numbers in accordance with a schedule satisfactory to the Bank in order to ensure the

availability in a timely manner of sufficient extension staff for DRATM and to strengthen the CCAMs.

(b) The Borrower shall, not later than September 30, 1989, prepare a detailed first-year training program for extension staff.

Section 3.03. The Borrower shall, not later than December 31, 1989, enter into a contract with a Portuguese university or technical institution satisfactory to the Bank to carry out Project evaluation, on terms and conditions determined by DAA with CCRN and DRATM, satisfactory to the Bank, which terms and conditions shall include, inter alia, the establishment and maintenance, with duly qualified and experienced staff in adequate numbers, of a Project Evaluation Unit (PEU) whose responsibilities shall include Project evaluation and the preparation and submission to the Bank of the Project completion report pursuant to Section 9.07 (c) of the General Conditions.

Section 3.04. The Borrower shall:

(a) cause DRATM, with the support of IDARN or DGHEA, as appropriate, not later than December 31, 1989, to develop priorities for applied research activities under Part D of the Project and the studies under Part G (1) and (2) of the Project and to designate the institutions to carry out such applied research activities and studies;

(b) cause CCRN, not later than December 31, 1989, to develop priorities for the studies under Part G (3) of the Project and to designate the institutions to carry out such studies; and

(c) review with the Bank, not later than June 30 of each year, the progress of the applied research activities under Part D of the Project.

Section 3.05. The Borrower shall review with the Bank, not later than June 30 of each year, the performance of the extension services of DRATM under Part E of the Project.

Section 3.06. The Borrower shall ensure that:

(a) water charges on the services provided under the new irrigation works under Part A (2) of the Project, reflecting cash flow conditions of the beneficiaries be adopted, which charges shall be determined in accordance with the Borrower's Ministerial Order No. 817/88 of December 26, 1988, with respect to recovery of investment costs of such irrigation works, and the Borrower's Decree Law No. 269/82 of July 10, 1982, with respect to recovery of operational and maintenance costs of such irrigation works; and

(b) water and sewerage tariffs and electricity tariffs on the services provided under Part C (2) and (3) of the Project shall be determined in accordance with the Borrower's Decree Law No. 100/84 of July 29, 1984, and Decree Law No. 344-A/82 of September 1, 1982.

Section 3.07. The Borrower shall, through DRATM:

(a) ensure that, prior to the construction of any new irrigation scheme under Part A (2) of the Project, a new water users association be formed and function in accordance with the Borrower's Decree Law No. 269/82, of July 10, 1982, including the provision of such Decree Law that at least 50% of the beneficiaries of irrigable areas agree: (i) to the construction of any such new irrigation scheme; and (ii) to take responsibility for the operation and maintenance of any such new irrigation scheme; and

(b) adopt criteria, satisfactory to the Bank, for each new irrigation scheme to be constructed under Part A (2) of the Project requiring that: (i) each such scheme of 200 ha or more

have an economic rate of return of at least 12% calculated in accordance with methodology satisfactory to the Bank; (ii) each such scheme covering less than 200 ha have total investment costs of not more than \$13,000 per ha; and (iii) each dam constructed under the Project in conjunction with a new irrigation scheme be constructed and operated in accordance with the dam safety regulations set forth in the Borrower's Decree Law No. 48373 of May 8, 1968, as amended from time to time.

Section 3.08. The Borrower shall carry out, not later than December 31, 1990, a study on the methods for strengthening the CCAM system in accordance with terms of reference satisfactory to the Bank.

Section 3.09. The Borrower shall ensure, through CCRN, that the Project is carried out, with staff adequately trained for this purpose, in accordance with the safety, health and environmental regulations of the Borrower and the EEC.

Section 3.10. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Borrower's 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 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

##### Remedies of the Bank

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

(a) IFADAP shall have failed to perform any covenant, agreement or obligation of IFADAP under the Project Agreement;

(b) an extraordinary situation shall have arisen which shall make it improbable that IFADAP will be able to perform its obligations under the Project Agreement;

(c) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of IFADAP or for the suspension of its operations;

(d) the Statutes of IFADAP shall have been amended, suspended, abrogated, repealed or waived in such a way as to materially and adversely affect the ability of IFADAP to carry out the covenants, agreements and obligations of IFADAP set forth in the Project Agreement; and

(e) the Borrower's Ministerial Order No. 817/88, Decree Law No. 269/82, Decree Law No. 100/84, Decree Law No. 344-A/82 or Decree Law No. 48373 shall have been amended, suspended, abrogated, repealed or waived in such a way as to materially and adversely affect the ability of the Borrower to carry out the obligations of the Borrower set forth in Sections 3.06 or 3.07 of this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur and shall continue for a period of 30 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (b), (c), (d) or (e) of Section 5.01 of this Agreement shall occur.

#### 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 IFADAP Agency Agreement has been executed on behalf of the Borrower and IFADAP;

(b) not less than one CCAM Loan Agreement and one PBI Loan Agreement shall have been executed on behalf of the respective CCAM and PBI;

(c) a protocolo between the Borrower and FENACAM has been



issued providing for the transfer to the CCAMs of the administrative duties of not less than 56 DRATM extensionists to enable such DRATM extensionists to restrict their activities to extension services;

(d) a protocolo between the Borrower and the seed potato union has been issued providing for the secondment of not less than three DRATM extensionists to such seed potato union;

(e) a protocolo between the Borrower and the dairy cooperative union (Lactimontes) has been issued providing for the secondment of not less than three DRATM extensionists to such dairy cooperative union; and

(f) two civil engineers have been appointed to the supervisory irrigation unit of DRATM.

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 Project Agreement has been duly authorized or ratified by IFADAP and is legally binding upon IFADAP in accordance with its terms;

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

(c) that not less than one CCAM Loan Agreement and one PBI Loan Agreement have been duly authorized or ratified by IFADAP and a CCAM and PBI, respectively, and are legally binding upon IFADAP and the CCAM and PBI in accordance with their terms.

Section 6.03. The date one hundred twenty (120) 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:

Ministerio das Financas  
Avenida Infante D. Henrique  
1100 Lisboa  
Portugal

Cable address:

DIRECCUO-GERAL DO  
TESOURO, LISBOA

Telex:

12 764 TRESOR P

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.

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

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 PORTUGAL

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

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

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works and related equipment for Part A of the Project	14,000,000	20%
(2) Sub-loans under Part B of the Project:	35,000,000	90% of amounts disbursed under Sub-loans
(3) Civil works and goods for Part C of the Project	30,000,000	25%
(4) Equipment, materials and vehicles for Parts D, E and F of the Project	6,000,000	80%
(5) Consultants' services, training and studies	2,000,000	80%
(6) Unallocated	3,000,000	
TOTAL	<hr/> 90,000,000	

2. 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 to: (i) transform the productive structure of the Project Area by promoting a more efficient agricultural sector; (ii) promote value-added formation and private investment in agroindustries to improve processing and marketing facilities and to strengthen entrepreneurial skills; (iii) reduce regional imbalances in employment levels; (iv) achieve steady economic growth and ecological balance in the Project Area; (v) increase incomes of farm families in the Project Area; (vi) strengthen the regional institutions participating in the Project; and (vii) improve the standard of living of the population in the Project Area through construction of basic infrastructure.

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: Irrigation Development

(1) Rehabilitation of about 220 irrigation schemes in the Project Area, including repair or reconstruction of diversion weirs and construction of small concrete canals, structures and offtakes equipped with steel sliding gates, to irrigate an area of about 11,000 ha.

(2) Construction of new irrigation schemes as follows:

(a) rehabilitation of the existing canal network in the Chaves Valley Perimeter serving about 920 ha and development of new blocks serving about 1,360 ha;

(b) construction of about 14 irrigation schemes serving about 3,000 ha; and

(c) construction of two multi-purpose schemes serving about 2,000 ha.

#### Part B: Credit

(1) Vineyard Restructuring

Provision of credit to farmers and farmers associations to finance land clearing and preparation, erecting trellises, fertilizer, vine seedlings and grafting and various operations in the vineyards (including cultivation, weeding, pruning and pest control).

(2) Agroindustry

Provision of credit to agricultural cooperatives and other investors to finance the modernization and development of agroindustry and agricultural marketing structures in the Project Area through rehabilitation, modernization and expansion of existing agroprocessing industries (wine, meat, olive oil, fruit and vegetable processing, dairy and new products), including the provision of equipment for quality improvement, modern packaging, additional processing lines, bottling lines, deep freezing and cold storage, and processing of by-products.

#### Part C: Rural Infrastructure

(1) Road construction and rehabilitation

(a) Construction or rehabilitation of about 690 km of rural and feeder roads.

(b) Construction or rehabilitation of about 380 km of municipal roads.

(c) Construction of village streets covering a total area of about 450,000 m<sup>2</sup> in about 100 villages.

(2) Water supply and sewage system

Construction of about 150 schemes for potable water supply and about 50 schemes for sewage disposal to serve a population of about 72,000.

(3) Rural electrification

Construction of about 660 electrification schemes to connect isolated farmers to the national grid.

(4) Conservation and Development of National and Natural Parks

Conservation and development activities in the national park of Peneda-Geres, the natural park of Montesinho and the natural park of Alvao, including agricultural activities, development of infrastructure, identification of alternative energy sources and nature conservation activities.

#### Part D: Applied Research Activities

Carrying out of farming system research and on-farm trials, including research on: (1) cropping patterns and production systems centered around potatoes, cereals and livestock; (2) improved forage production and conservation; (3) improved water use of irrigated areas; (4) variety testing of improved wine and table grapes, fruit trees, nuts, dry fruits and vegetables; and (5) potential new crops.

#### Part E: Extension Activities

(1) Reorganization and strengthening of DRATM and supporting directorates, including: (a) recruitment of about 33 new field staff and about 10 extension coordinators; and (b) establishment of a regional documentation and information unit with the addition of three communication specialists.

(2) Training of technical staff, extension staff, extension-coordination and other specialized staff and farm groups.

#### Part F: Institutional Strengthening

(1) Regional Project Management

(a) DRATM: (i) the establishment and staffing of an irrigation unit and construction and equipping of three training centers, local DRATM offices and houses for extension staff; (ii) strengthening of the planning unit with the addition of four agronomists and one agricultural economist; (iii) strengthening of the cooperative services through the provision of additional staff and a staff training program; and (iv) strengthening of the research and production support services.

(b) CCRN: strengthening of the central services and the technical support offices (GATs) through the provision of additional staff, technical assistance and equipment.

(c) GAEs: strengthening of the offices for enterprises development through the provision of additional staff and technical assistance.

(2) Agricultural Cooperative Credit System

(a) Carrying out of a study on methods for strengthening the role of the CCAM credit system in financing the restructuring of the agricultural sector.

(b) Strengthening of the technical capacity of the CCAMs and improving the preparation by farmers and cooperatives of investment proposals through the provision of equipment and vehicles to the regional offices of FENACAM and the regional CCAMs, the introduction of a training program in FENACAM for the personnel of the regional CCAMs and the establishment in the Project Area of a team of specialists to assist farmers and cooperatives in the preparation of Investment Projects.

Part G: Studies

(1) Carrying out of irrigation studies, including feasibility studies and detailed designs for new irrigation schemes to be constructed under the Project, and monitoring research studies on design criteria of some irrigation schemes, crop water requirements and water use efficiency.

(2) Carrying out of agricultural studies to improve cropping patterns and production systems.

(3) Carrying out of studies on such subjects as aquaculture, natural resources, preserving the quality of the environment and maintenance of national and natural parks.

\* \* \* \*

The Project is expected to be completed by December 31, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 15 and July 15 beginning July 15, 1994 through January 15, 2004	4,500,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment, multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years	0.40

before maturity	
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

#### SCHEDULE 4

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works 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 Portugal may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

##### Part C: Other Procurement Procedures

1. Civil works for Part A (1) of the Project estimated to cost more than the equivalent of \$120,000 per contract, civil works and related equipment for Part A (2) of the Project estimated to cost the equivalent of \$1,500,000 or less per contract up to an aggregate amount not to exceed the equivalent of \$4,000,000, civil works for Part C (1) (a) and (4) of the Project estimated to cost less than the equivalent of \$120,000 per contract up to an aggregate amount not to exceed the equivalent of \$7,000,000, and civil works for Part C (1) (b) and (c), (2) and (3) of the Project, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Civil works for Part B (1) of the Project, and equipment for Part B (2) of the Project estimated to cost up to an aggregate amount not to exceed the equivalent of \$11,000,000, may be procured in accordance with established commercial channels.

3. Computer, office and other training and research equipment may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

4. Civil works for Part A (1) of the Project estimated to cost up to an aggregate amount not to exceed the equivalent of \$1,400,000 and civil works for Part C (1) (a) and C (4) of the Project estimated to cost up to an aggregate amount not to exceed the equivalent of \$7,000,000, may be carried out by force account with the prior approval of 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 civil works estimated to cost the equivalent of \$2,000,000 or more, and to each contract for goods estimated to cost the equivalent of \$500,000 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 Special Account, 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 Special Account 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 Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

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

## Section II. Employment of Consultants

For the purposes of Part A of the Project, the Borrower shall employ irrigation consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers" and by The World Bank as Executing Agency" published by the Bank in August 1981.

### SCHEDULE 5

#### Implementation Program

#### I. Entities responsible for Project Implementation:

Part of Project	Component	Entity
Part A	Irrigation	DRATM/DGHEA
Part B	Credit Vineyard development Agroindustries	IFADAP
Part C	Rural infrastructure Roads (1) rural and field roads (2) municipal roads Water supply and sewerage Rural electrification Conservation activities	DRATM CCRN CCRN DRATM CCRN, SNPRCN
Part D	Applied research	DRATM, IDARN
Part E	Extension	DRATM

Part F	Institutional strengthening	CCRN, DRATM, FENACAM
Part G	Studies	
	(1) Irrigation studies	DRATM, DGHEA
	(2) Agricultural studies	DRATM, IDARN
	(3) Other studies	CCRN

## II. Organization and Management of Project Implementation

A. Overall planning and coordination of the Project shall be the responsibility of CCRN, supported by DRATM for the agricultural parts of the Project. The president of CCRN shall be the Project Coordinator (PC) and the Director of DRATM shall be the Deputy Project Coordinator.

B. (1) The Project Administration Unit (PAU) located in CCRN shall coordinate day-to-day Project activities. The PAU shall consist of the administrator, who shall also be responsible for the non-agricultural parts of the Project, the director for the agricultural parts of the Project, and four technical officers.

(2) The PAU shall primarily be responsible for supervising and monitoring the execution of the Project. The PAU shall be responsible for ensuring that accounting and auditing of Project activities and Project progress reporting are properly carried out and shall liaise with the agencies responsible for Project planning, progress reporting and evaluation to ensure timely execution of the Project and preparation of Project evaluation reports.

(3) The PAU shall be responsible for:

- (a) receiving and reviewing annual work programs submitted for approval by the agencies responsible for Project implementation;
- (b) establishing annual Project implementation programs, including time schedules, costing requirements and manpower requirements;
- (c) reviewing each of the Project components to ensure that they are carried out in accordance with environmental guidelines of the Borrower, as appropriate;
- (d) maintaining accounts for all activities carried out under the Project and making them available to the auditors and the Bank on request; and
- (e) preparing semi-annual progress reports based on information provided by the Project implementing agencies.

C. A Project Director of Agricultural Services shall be appointed to assist the Director of DRATM in supervising day-to-day activities for the agricultural parts of the Project.

D. A National Coordination Council composed of the Borrower's Ministry of Finance, Ministry of Planning and Territorial Administration, and MAPA shall be responsible for monitoring and evaluation of overall Project performance and to ensure support at the national level. The PC shall convene such National Coordination Council, and chair its meetings, at least once every twelve months.

E. The existing Agrarian Regional Council (ARC) of DRATM, established by the Borrower's Decree Law No. 190/86 of July 16, 1986, shall ensure the necessary regional institutional participation and coordination in the Project Area with regard to the agricultural parts of the Project. The ARC, chaired by the Director of DRATM, shall include local representatives of public



and private agencies involved in Project implementation (IFADAP, FENACAM, cooperatives, farmers associations and universities in the Project Area). The ARC shall meet at least three times per year to: (1) review the status of Project implementation; (2) provide advice on financial, administrative and technical problems; and (3) assist in planning and monitoring activities.

F. The Project Evaluation Unit (PEU) shall be responsible to the PC for Project evaluation in accordance with Section 3.03 of this Agreement.

### III. Implementation of Project Components

#### A. Irrigation Development

(1) DRATM shall carry out Part A (1) of the Project (rehabilitation of irrigation schemes) through its Soils and Agricultural Engineering Division (SAED), with the assistance of hired labor and local farmers.

(2) DRATM shall carry out Part A (2) of the Project (construction of new irrigation schemes) through its Irrigation Unit (IU) with SAED. The IU shall supervise Part A (2) of the Project and shall be responsible for:

(a) administering, contracting and monitoring the preparation of irrigation engineering and feasibility studies;

(b) contracting of construction works and field supervision;

(c) organizing and monitoring of operational and maintenance activities;

(d) coordinating with other DRATM divisions responsible for Project activities, such as administration of water users associations and the extension services; and

(e) assessing the economic viability of each new irrigation scheme to be carried out under Part A (2) of the Project in accordance with Section 3.07 (b) of this Agreement.

The IU shall oversee the formation of new water users associations under the new irrigation schemes. The IU shall coordinate with DRATM's Planning Office and shall be staffed with a unit chief, two civil engineers, one agricultural engineer, one agronomist and four to six technical assistants.

#### B. Credit

IFADAP shall carry out Part B of the Project (credit) through CCAMs and PBIs in accordance with the terms and conditions of the Project Agreement.

#### C. Rural Infrastructure

(1) DRATM shall carry out Part C (1) (a) of the Project (rural and feeder roads) and shall be responsible for design, construction works and maintenance, with technical assistance provided by GATs, as necessary.

(2) DRATM shall carry out Part C (3) of the Project (rural electrification) with the Electricity Power Authority (EDP) which is responsible for the design and construction of the rural electrification works.

(3) CCRN shall carry out, in coordination with the Municipalities, Part C (1) (b) and (c) of the Project (construction of municipal roads and village streets) and Part C (2) of the Project (water supply and sewage system).

#### D. Applied Research Activities

DRATM, with the scientific and technical support of IDARN and various research and training institutions, shall carry out Part D of the Project (applied research activities). DRATM, assisted by IDARN, shall develop research priorities for applied research, prepare research proposals, review research offers from various national and international institutions, and contract and monitor research activities. DRATM shall carry out applied research at the six experimental stations operated by the Directorate for Livestock and Crop Development (DEPAP) which would be related to extension services through the subject matter specialists.

#### E. Extension Activities

DRATM shall carry out Part E of the Project (extension activities) through the Extension Planning Unit (EPU) which shall prepare an annual extension program.

##### Regional Level

(1) The EPU shall:

(a) formulate a regional extension program incorporating directives of the EEC and the Borrower;

(b) monitor the implementation of the regional plan in the field;

(c) outline strategies for research in the major sectors and sub-sectors and assist in selection of research institutions based on requirements identified by extension staff; and

(d) assess extension training requirements.

(2) DRATM shall collect and provide to extension staff the technical and economic information materials to be distributed to farmers.

(3) The EPU shall ensure that the field agronomists and subject matter specialists operating within DRATM's experimental stations provide the results of applied research activities to extension staff.

(4) DRATM's vocational training division shall prepare and carry out training and retraining of extension staff.

##### Agrarian Zone Level

(1) The Agrarian Zone Extension Coordinators shall:

(a) establish a program of action with EPU;

(b) coordinate the program of individual extension staff;

(c) liaise with research institutions and other agencies as relevant for technical inputs and general information; and

(d) select staff and assist in farm selection for training activities.

(2) Two cooperatives unions (seed potato union and dairy cooperative union) shall set up pilot extension schemes with six extension staff seconded by DRATM or employed by such cooperative unions who shall work in collaboration with DRATM extension staff.

#### F. Institutional Development

(1) DRATM shall carry out Part F (1) (a) of the Project (strengthening of DRATM).

(2) CCRN shall carry out Part F (1) (b) of the Project (strengthening of GATs) and Part F (1) (c) of the Project

(strengthening of GAEs).

(3) CCRN and FENACAM shall carry out Part F (2) of the Project (strengthening of the regional CCAMs).

#### G. Studies

DRATM and DGHEA shall carry out Part G (1) of the Project (irrigation studies), DRATM and IDARN shall carry out Part G (2) of the Project (agricultural studies) and CCRN shall carry out Part G (3) of the Project (other studies).

### SCHEDULE 6

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) 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 an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the 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 Special Account has been duly opened, 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 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 Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the 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 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 made out of the 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 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 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 Categories 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 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 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.

6. (a) If the Bank shall have determined at any time that any payment out of the 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 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 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 Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(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.

