

LOAN NUMBER 2840 PO

Loan Agreement
(Third Highway Project)

between

REPUBLIC OF PORTUGAL

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 10, 1987

AGREEMENT, dated July 10, 1987, between REPUBLIC OF PORTUGAL (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" 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MOPTC" means Ministerio das Obras Publicas, Transportes e Comunicacoes the Borrower's Ministry of Public Works, Transport and Communications, and any successor thereto.

(b) "JAE" means Junta Autonoma de Estradas, the Highway Authority, an agency of the Borrower, and any successor thereto;

(c) "GEP" means Gabinete de Estudos e Planeamento do MOPTC, the Cabinet of Studies and Planning of MOPTC, and any successor thereto;

(d) "DGV" means Direccao Geral de Viacao, the General Directorate of Traffic, an agency of the Borrower, and any successor thereto;

(e) "GNR" means the Guarda Nacional Republicana, the National Guard of the Borrower, and any successor thereto;

(f) "PMP" means Plano a Medio Prazo, the Borrower's Medium-term Plan, as adopted under despacho dated January 21, 1987, for the national highway sector during the 1986 through 1988 period;

(g) "Energy Management Policy Study" means the Energy Management Policy Study of the Borrower referred to in Section 3.03 of this Agreement;

(h) "Freight Transport Productivity Study" means the Freight Transport Productivity Study of the Borrower referred to in Section 3.03 of this Agreement;

(i) "Road User Charges Study" means the Road User Charges Study of the Borrower referred to in Section 3.04 of this Agreement;

(j) "North-South Corridor Study" means the North-South Corridor Study of the Borrower referred to in Section 3.04 of this Agreement;

(k) "Road Safety Program" means the Road Safety Program of the Borrower referred to in Section 3.08 of this Agreement;

(l) "Training Program" means the Training Program of the Borrower referred to in Section 3.09 of this Agreement; and

(m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to fifty million dollars (\$50,000,000).

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 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, 1990 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 semiannually on January 1 and July 1 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, in accordance with the PMP, shall carry out Parts A, B, C, D and E (3) through JAE and Part E (1) and (2) of the Project through GEP, all with due diligence and efficiency and in conformity with appropriate financial, engineering and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall consult with the Bank prior to making any significant modification of any aspect of the PMP.

Section 3.02. The Borrower shall establish through GEP, not later than September 30, 1987, a steering committee comprised of representatives of the Borrower's Ministry of Finance, the Borrower's Ministry of Planning and Territorial Administration, JAE and GEP for the purpose of coordinating the technical assistance and training to be carried out under Part E of the Project.

Section 3.03. The Borrower shall: (a) not later than June 30, 1989, carry out the Energy Management Policy Study, Freight Transport Productivity Study and Road User Charges Study on the basis of terms of reference and schedules satisfactory to the Bank;

(b) not later than three months after the completion of each study referred to in paragraph (a) hereof or September 30, 1989, whichever is earlier, consult with the Bank on the conclusions and recommendations of each study referred to in paragraph (a) hereof; and

(c) not later than three months after consultation with the Bank on the conclusions and recommendations of each study referred to in paragraph (a) hereof or December 31, 1989, whichever is earlier, prepare an action program satisfactory to the Bank for implementation of the recommendations of each study referred to in paragraph (a) hereof for the purposes of achieving the objectives of each such study.

Section 3.04. The Borrower shall: (a) not later than September 30, 1989, carry out the North-South Corridor Study on the basis of

terms of reference and a schedule satisfactory to the Bank; and

(b) not later than December 31, 1989, consult with the Bank on the conclusions and recommendations of such study and prepare an action program satisfactory to the Bank for implementation of the recommendations of such study for the purposes of achieving the objectives of such study.

Section 3.05. The Borrower shall, not later than September 30, 1987, update in a manner satisfactory to the Bank for purposes of the studies referred to in Sections 3.03 and 3.04 of this Agreement, the data in the transport information system of MOPTC based on the 1981 National Transport Study of the Borrower.

Section 3.06. Without restriction or limitation upon the provisions of Section 9.09 of the General Conditions, the Borrower shall acquire, on a schedule satisfactory to the Bank, the land and rights in respect of land required for carrying out Part A of the Project.

Section 3.07. The Borrower shall, through JAE, DGV and GNR, not later than December 31, 1987, put into effect a program satisfactory to the Bank for nationwide vehicle weight control, which program shall, inter alia, specify the agencies of the Borrower which shall participate in such program and define the respective responsibilities of such agencies, provide for adequate coordination among such agencies, identify the assets available for the control of weights and provide for methods for securing additional staff and the necessary installations and equipment.

Section 3.08. The Borrower shall, not later than September 30, 1987, put into effect the Road Safety Program under Part C of the Project which shall provide, inter alia, for consultation on a regular basis among JAE, DGV and GNR on road safety matters, specify the respective responsibilities of JAE, DGV and GNR, and set forth a timetable for implementation of such program.

Section 3.09. The Borrower shall carry out the Training Program under Part E (3) of the Project in a manner and on a schedule satisfactory to the Bank.

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.

Section 3.11. Without restriction or limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower shall review the progress of the Project with the Bank on the basis of the schedule set forth in Schedule 5 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 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.

Section 4.02. The Borrower shall at all times adequately maintain and repair, or cause to be adequately maintained and repaired, all roads constructed or rehabilitated under the Project, all in accordance with appropriate engineering standards and with due regard to financial and economic requirements. To this effect, the Borrower shall provide, promptly as needed, the funds, facilities and other resources required for the purpose.

ARTICLE V

Termination

Section 5.01. The date 45 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 the Borrower at the time responsible for Finance is designated as the 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:

Ministerio das Financas
Avenida Infante D. Henrique

1100 Lisboa
Portugal

Cable address: Telex:
Direccao-Geral 12 764 TRESOR P
do Tesouro
Lisboa

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 440098 (ITT),
Washington, D.C. 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

/s/ Jose Luis Gomes

By
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

/s/ Wilfried Thalwitz

Regional Vice President
Europe, Middle East and North Africa

SCHEDULE I

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	34,400,000	50%
(2) Road maintenance by contractor	9,000,000	35%
(3) Equipment, materials and spare parts	3,000,000	100% of foreign expenditures
(4) Consultants' services	1,400,000	100%
(5) Training	200,000	100%

(6) Unallocated	2,000,000
TOTAL	50,000,000

2. For the purposes of this Schedule 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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,1000,1000, may be made in respect of Category (1) on account of payments made for expenditures before that date but after July 1, 1986.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the Borrower's Plano a Medio Prazo of capital works, routine maintenance and technical assistance during the 1986 through 1988 period and to improve the planning and coordination of transport programs of the Borrower.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Road Improvement

Construction of about 100 kilometers of roads to bypass about eight towns and about fifteen black spots, rehabilitation of about 2,500 kilometers of roads and periodic maintenance and/or strengthening of about 3,000 kilometers of roads.

Part B: Road Maintenance

Carrying out of routine road maintenance on the national network.

Part C: Road Safety

Strengthening of the Borrower's road safety capability through the establishment of an accident data collection storage system, a retrieval and analysis system and a system of regular vehicle inspection, and improved coordination and collaboration among the agencies involved in road safety (JAE, DGV and GNR) through the provision of technical assistance and equipment for the purpose.

Part D: Vehicle Weight Control

Strengthening of the Borrower's program for axle-load control through improved coordination and collaboration between the agencies involved in axle-load control (JAE, DGV and GNR) and the provision of equipment for the purpose.

Part E: Institutional Development

(1) Development of intermodal transport planning and coordination and improvement of freight transport efficiency through an Energy Management Policy Study, a Freight Transport Productivity Study, a Road User Charges Study and a North-South Corridor Study.

(2) Improvement of the planning and coordination of the transport sector of the Borrower through the provision of technical assistance.

(3) Strengthening the Borrower's management capability of its transport sector through the provision of training.

The Project is expected to be completed by December 31, 1989.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 1 and July 1 beginning January 1, 1991 through January 1, 2002	2,085,000
On July 1, 2002	2,045,000

* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

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

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.1 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 estimated to cost the equivalent of \$5 million or less, equipment and materials estimated to cost the equivalent of \$100,000 or less, but not more than \$600,000 in the aggregate, and all routine maintenance works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Spare parts which are not proprietary may be procured under contracts awarded on the basis of price quotations solicited from at least three suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Bank.

3. Proprietary spare parts for equipment may be purchased directly from the suppliers of the equipment or their authorized agencies.

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 \$5,000,000 or more and for equipment and materials estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts 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) The bidding documents for the first three contracts to be awarded on the basis of competitive bidding, locally advertised, are to be furnished to the Bank in accordance with paragraph 2 of Appendix 1 to the Guidelines. The bidding documents for all other contracts to be awarded on the basis of competitive bidding, locally advertised, are to be in accordance with those reviewed by the Bank as heretofore provided.

(c) With respect to each contract not governed by the preceding subparagraphs (a) and (b), 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.

(d) The provisions of the preceding subparagraphs (a), (b) and (c) 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

In order to assist the Borrower in carrying out Part E of the Project, the Borrower shall employ transport management 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

Progress Reports

Part A:

The Borrower shall furnish to the Bank on a quarterly basis the information referred to in Section 9.07 (a) of the General Conditions.

Part B:

The Borrower and the Bank shall meet on a semi-annual basis to review the following reports prepared by the responsible agency on the progress of the PMP:

1. By March 15 of each year, JAE shall report on the level of works carried out during the previous year under the PMP, breakdown of recurrent budget expenditures, financial status of JAE, maintenance operations, selection and execution of Bank-financed works, assessment of maintenance costs by force account and by contractor using the monitoring system of JAE, and implementation of the vehicle weight control program.
2. By March 15 of each year, GEP shall report on the Road User Charges Study and the status of road user charges; the Energy Management Policy Study and the status of fuel prices; the status of the trucking regulatory review; update of investment objectives and projected limits for each of the transport subsectors, with particular focus on the status of road and rail competition; and the use of technical assistance during the previous calendar year.
3. By September 15 of each year, JAE shall report on the proposed update of the PMP investment program, proposed recurrent budget for the following year, progress of the Road Safety Program, progress on acquisition of equipment, progress of the Training Program and status of selection and execution of Bank financed works.
4. By September 15 of each year, GEP shall report on the proposed allocation of funds for technical assistance in the following year and on the action taken to ensure consistency of the road and rail investment plans for the following year.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

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

(c) the term "Authorized Allocation" means an amount equivalent to \$6,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) 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
- (ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account.

