

CONFORMED COPY

LOAN NUMBER 2802 UR

(Refinery Modernization Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

ADMINISTRACION NACIONAL DE COMBUSTIBLES,  
ALCOHOL Y PORTLAND

Dated July 29, 1987

LOAN NUMBER 2802 UR

LOAN AGREEMENT

AGREEMENT, dated July 29, 1987 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and ADMINISTRACION NACIONAL DE COMBUSTIBLES, ALCOHOL Y PORTLAND (the Borrower).

WHEREAS (A) Republica Oriental del Uruguay (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to: (i) guarantee the obligations of the Borrower in respect of the Loan; and (ii) carry out Part B (iv) of the Project and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

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

(b) "Subsidiary Agreement" means the agreement to be entered into between the Guarantor and the Borrower pursuant to the provisions of Section 3.01 (b) and 7.01 of this Agreement; and

(c) "Estatutos" means the Borrower's by-laws approved by the Guarantor's Congress and the term includes the Ley de Creacion No. 8,764 dated October 15, 1931 as amended up to the date of this Agreement, by means of which the Borrower was established.

#### 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 twenty-four million four hundred thousand dollars (\$24,400,000).

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 Parts A, B (i), B (ii) and B (iii) of the Project, open and maintain in dollars a special account in Banco de la Republica Oriental del Uruguay 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 5 to this Agreement.

(c) On each of the semiannual interest payment dates specified in Section 2.06 of this Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay, on such date, interest and other charges on the Loan accrued and payable on or before the date set forth, and up to the amount allocated, in Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Bank and the Borrower.

Section 2.03. The Closing Date shall be January 31, 1992 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 Guarantor and 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 June 1 and December 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.

Section 2.08. The director of the Guarantor's Office of Planning and Budgeting, or any person authorized in writing by such director are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of Part B (iv) of the Project.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, other than Part B (iv) thereof, with due diligence and efficiency and in conformity with appropriate administrative, financial, public utility, petroleum industry, and ecological practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project (other than for Part B (iv) thereof).

(b) Without limitation upon the provisions of paragraph (a) of this Section and for purposes of assisting the Guarantor in carrying out Part B (iv) of the Project, the Borrower shall enter into an agreement, satisfactory to the Bank, with the Guarantor (the Subsidiary Agreement) under which the Borrower shall make available to the Guarantor the proceeds of the portion of the Loan allocated for purposes of Part B (iv) of the Project.

(c) The Borrower shall exercise its rights under the Subsidiary Agreement and, except as otherwise agreed with the Bank, shall not amend, revoke, abrogate or waive the Subsidiary Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project (other than for Part B (iv) thereof) and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.05, 9.06 and 9.07 of the General Conditions (relating to use of services, plans and schedules and records and reports, respectively) in respect of Part B (iv) of the Project shall be carried out by the Guarantor pursuant to Section 3.04 of the Guarantee Agreement.

#### ARTICLE IV

##### Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, public utility and petroleum industry practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, public utility and petroleum industry practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 4.04. The Borrower shall: (i) not later than June 30, 1989, or on such other date as the Bank shall agree, complete the carrying out of Part A (x) of the Project; (ii) thereafter, inform the Bank, not less frequently than quarterly, on the base line measurements obtained with the devices installed under such Part of the Project; and (iii) adopt from time to time, in consultation with the Bank, all such additional pollution control action as shall be required in light of such measurements.

#### ARTICLE V

##### Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts, including separate accounts and records related to the carrying out of the Project (other than Part B (iv) thereof) adequate to reflect in accordance with sound accounting practices its operations and financial condition. Without any limitation to the preceding, the Borrower shall continue to maintain records and accounts adequate to show and reflect the operations and financial condition, respectively, of the Borrower's Combustibles (Fuel) Division separately from the other operational Divisions of the Borrower.

(b) The Borrower shall:

- (i) have its records, accounts (including the Special Account) and financial statements (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: (A) 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 and; (B) starting with its fiscal year next following the completion of Part B (iii) of the Project or with its fiscal year ending December 31, 1988, whichever is earlier, and not later than three months after the end of each fiscal year, unaudited balance sheets and statements of income and expenses and of sources and application of funds for each such fiscal year adjusted to reflect, in accordance with sound accounting practices, inflation and currency parity changes, provided that such unaudited balance sheets, in respect of the fiscal year ending December 31, 1988, may be furnished to the Bank not later than October 31, 1989.

(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, 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 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than sixty to forty.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower maturing by its terms on demand or more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such

valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Borrower shows that the estimated net revenues of the Borrower for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower maturing by its terms on demand or more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payments on the date of such contract, agreements or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues of the Borrower" means the difference between:
  - (A) the sum of revenues from all sources related to operations of the Borrower and net non-operating income; and
  - (B) the sum of all expenses related to operations of the Borrower including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between:
  - (A) revenues from all sources other than those related to operations; and
  - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term "reasonable forecast" means a forecast prepared by the Borrower not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Borrower.

- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.04. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain a ratio of current assets to current liabilities of not less than 1.3.

(b) Before the end of the second quarter in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal year covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its prices) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (ii) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (iii) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.05. The Borrower shall inform the Bank promptly on any preliminary decision to undertake any capital expenditure estimated to cost more than the equivalent of \$15,000,000 and shall afford the Bank a reasonable opportunity to express its views before the Borrower makes a final decision about incurring such expenditure. For purposes of this Section, the term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.

## ARTICLE VI

### Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified.

(a) the Guarantor or the Borrower shall have failed to comply with any of its respective obligations under the Subsidiary Agreement;

(b) the Estatutos shall have been modified so as to affect adversely the execution of the Project (other than Part B (iv) thereof), the achievement of the objectives thereof, or the financial condition of the Borrower; and

(c) the task force established pursuant to Section 7.01 (b) of this Agreement has been disbanded or the responsibilities thereof diminished so as to affect adversely the execution of the Project (other than Part B (iv) thereof).

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely, that any event specified in paragraph (a) or paragraph (b) of Section 6.01 of this Agreement shall have occurred and shall continue for a period of sixty days after the Bank shall have given notice thereof to the Borrower.

## ARTICLE VII

### Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the Subsidiary Agreement has been executed and delivered on terms and conditions satisfactory to the Bank; and

(b) that the Borrower has established, in form and substance satisfactory to the Bank, a task force that will be responsible for all daily activities connected with the carrying out of the Project (other than Part B(iv) thereof).

Section 7.02. The following is specified as an additional matter, 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, namely, that the Subsidiary Agreement has been authorized or ratified by all Governmental or corporate, as the case may be, action required for the purpose, and that is legally binding upon the Borrower and the Guarantor in accordance with its terms.

Section 7.03. The date of October 27, 1987 is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VIII

### Representatives of the Borrower; Addresses

Section 8.01. The General Manager of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

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 the Borrower:

Administracion Nacional de  
Combustibles Alcohol y Portland  
Paysandu y Avda. Libertador Brig.  
Gral. Lavalleja  
Montevideo - Uruguay

Cable address:

ANCAP

Telex:

23168 ANCAP UY

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/ S. Shahid Husain  
Regional Vice President  
Latin America and the Caribbean

ADMINISTRACION NACIONAL DE COMBUSTIBLES,  
ALCOHOL Y PORTLAND

By /s/ Hector Luisi  
Authorized Representative

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) Goods directly procured by the Borrower or procured by an agency thereof	12,780,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expen- ditures for imported goods procured locally

(2)	License or know how fees and engineering and project management services	4,510,000	100% of foreign expenditures
(3)	Works (including professional fees)	880,000	100% of foreign expenditures
	Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(4)	(a) Consultants' services other than for Part B (iv) of the Project	670,000	100% of local expenditures for services of consultants residing within the territory of the Guarantor
	(b) Consultants' services for Part B (iv) of the Project	80,000	and 100% of foreign expenditures for services of other consultants
(5)	Interest and other charges on the Loan accrued on or before May 31, 1991	3,480,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(6)	Unallocated	2,000,000	
	TOTAL	24,400,000	

2. For the purposes of this Schedule:

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

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

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

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce the overall economic cost of supply of petroleum products in Uruguay to levels comparable to international prices.

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

Part A: Refinery Conversion

Consists of: (i) converting the current dense-bed configuration Fluid Catalytic Cracking (FCC) unit into riser-cracking technology, increasing its fresh-feed capacity from 5,500 barrels per

day to about 8,200 barrels per day; (ii) debottlenecking the largest of the vacuum distillation units, primarily by changing column internals, and increasing its processing capacity consistent with the expanded (FCC) unit; (iii) converting one of the smaller distillation trains, presently unused, into visbreaking service to process the residues from vacuum distillation into higher-value distillates; (iv) installing a new unit for kerosene treatment; (v) changing the current middle distillates (kerosene and gas oil) treatment unit into straight-run gas oil and FCC product cycle oil treatment unit; (vi) revamping and expanding capacity of gas recovery and fractionation unit; (vii) replacing worn-out main water supply pipelines by a new, single larger-diameter line; (viii) replacing some of the old, energy-inefficient process heaters by new higher-efficiency ones and installing heat-energy recovery systems in certain other process and utility heaters; (ix) installing improved systems for process effluent treatment facilities, and installing two new oil separators for tank-farm effluents, and (x) installing measurement devices for flow and quality of liquid and aerial effluents.

Part B: Institutional Improvement

i. Improvement of the Borrower's capabilities in the areas of crude oil procurement and petroleum products imports/exports trading;

ii. Enhancement of the Borrower's refinery planning and production control by means of the introduction and utilization of linear programming modelling techniques;

iii. Development and putting into effect of new accounting, budgeting and management information systems for the Borrower's operation, which, inter alia, will also be able to reflect inflation and currency parity changes; and

iv. Development and establishment of revised ex-refinery petroleum products pricing and crude import tariff systems, geared to encourage operational efficiency.

\* \* \* \* \*

The Project is expected to be completed by July 31, 1991.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 1 and December 1	
beginning December 1, 1990 through December 1, 2001	1,015,000
On June 1, 2002	1,055,000

\* 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 percentage per annum) applicable to the balance out-

standing 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 and Consultants' Services

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

###### Part A: International Competitive Bidding

1. 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).

2. Bidders for any contract in respect of detailed engineering and construction and start-up works for Part A of the Project or provision of agency services for the Borrower for the procurement of goods related to the carrying out of Part A of the Project, or both, will be prequalified as described in paragraph 2.10 of the Guidelines.

3. To the extent practicable, goods for Part A of the Project shall be grouped in procurement packages estimated to cost \$50,000 equivalent or more.

###### 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 Uruguay 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

Goods for Part A of the Project: (i) which are proprietary in nature and can be obtained from a limited number of sources; (ii) the supply of which at a given time is critical for an efficient execution of the Project; and (iii) which cannot be grouped in packages estimated to cost the equivalent of \$50,000 or more, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Section I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof); provided, however, that the aggregate of the contracts so awarded shall not exceed the equivalent of \$3,000,000.

###### Part D: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for Part A of the Project estimated to cost the equivalent of \$50,000 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, such 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 5 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 5.01 (c) (ii) of this Agreement.

3. The figure of 10% 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 the basic engineering for Part A of the Project and in the carrying out of Part B of the Project (other than B (iv) thereof), the Borrower shall employ 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

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means each of the Categories, other than Category (4) (b), set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Part A and Part B (other than B (iv)) of 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 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) If payments out of the Special Account are to be made in respect of expenditures in a currency or currencies other than dollars, the rate of exchange to be applied shall be the one prevailing at the time the eligible expenditures were incurred, except that, if the expenditures in question were incurred more than ninety days before the corresponding payment out of the Special Account is made, the rate of exchange applicable shall be the one prevailing at the time such payment is made.

(b) 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.

(c) 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, the Bank may deny any request for a further deposit into the Special Account when either of the following situations 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 Part A and Part B (other than B (iv)) of 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 satis-

fied 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 for its immediate cancellation.

