

CONFORMED COPY

LOAN NUMBER 3092 VE

(Trade Policy Loan)

between

REPUBLIC OF VENEZUELA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 16, 1989

LOAN NUMBER 3092 VE

LOAN AGREEMENT

AGREEMENT, dated October 16, 1989, between REPUBLIC OF VENEZUELA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter signed on May 16, 1989, from the Borrower describing its program of actions, objectives and policies designed to achieve during the years 1989 and 1990 a gradual adjustment of the trade policies of the Borrower, including measures to liberalize the Borrower's trade regime and increase the international competitiveness of its industries (such program hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports required during the first phase of such execution; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to

the Borrower by making the Loan in two tranches and for the financing of services, training and equipment as hereinafter provided;

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 modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11, shall be modified to read:

"'Project' means the imports and other activities, including the technical assistance described in Schedule 5 to the Loan Agreement, that may be financed out of the proceeds of the Loan pursuant to the provisions of Schedule 1 to the Loan Agreement.";

(b) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(c) The last sentence of Section 3.02 is deleted.

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) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986);

(b) "Bolivar" and "Bs." mean the currency unit of the Borrower;

(c) "Non-tariff Barriers" means any form of restriction on imports other than import taxes levied within the framework of an import tariff, and the term includes, without limitation, quantitative restrictions placed by the government on imports, reference prices and import permits and licenses other than reasonable measures required under public health or safety control or customs regulations;

(d) "Ministerio de Hacienda" means the Borrower's Ministry of Finance;

(e) "GATT" means the General Agreement on Tariffs and Trade;

(f) "MD" means Ministerio de Fomento, the Borrower's Ministry of Development;

(g) "CKD Unit" means a completely knocked down assembly unit, as agreed between the Borrower and the Bank for purposes of this paragraph (g); and

(h) "Technical Assistance Expenditures" means the

expenditures to be financed from the proceeds of the Loan pursuant to the provisions of this Agreement in respect of the activities referred to in Schedule 5 to 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, various currencies that shall have an aggregate value equivalent to the amount of three hundred and fifty-three million dollars (\$353,000,000), being the sum of the proceeds of the Loan with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1991, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ 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 the purposes of this Section:

- (i) "Interest Period" means the six-month period commencing of 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 February 15 and August 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 2 to this Agreement.

Section 2.08. (a) The Borrower shall take 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 through Ministerio de Hacienda.

(b) Without limitation or restriction to the foregoing, the Borrower shall act through Ministerio de Hacienda in connection with the preparation of withdrawal applications under the Loan and for the collection of the documents and other evidence to be furnished to the Bank in support of such applications; such

withdrawal applications shall to the extent practicable be consolidated, in respect of expenditures other than Technical Assistance Expenditures, so as to apply for withdrawal of aggregate amounts of not less than the equivalent of one million dollars (\$1,000,000).

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 4 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Borrower shall carry out or cause to be carried out the activities referred to in Schedule 5 to this Agreement and shall provide, promptly as needed, all facilities, staff, funds and other resources required for the execution thereof. Without limitation to the foregoing, the Borrower shall complete or cause to be completed the studies included in Schedule 5 to this Agreement as follows: (i) the study referred to in paragraph A.1 by December 1, 1989; (ii) the study referred to in paragraph B.1 by January 31, 1990; (iii) the study referred to in paragraph D by December 1, 1989; (iv) the study referred to in paragraph E by September 1, 1990; (v) the study referred to in paragraph H.1 by December 1, 1989; and (vi) the studies referred to in paragraph H.2 by December 31, 1990.

(b) For purposes of carrying out the activities referred to in paragraphs A, B.1, B.3, C, D, E, F and H of Schedule 5 to this Agreement, 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 the 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.

(c) Promptly upon the completion of each study referred to in Schedule 5 to this Agreement, the Borrower shall furnish to the Bank a copy of such study and its recommendations, provide to the Bank a reasonable opportunity to review and comment thereon, and, incorporating the Bank's comments in a manner satisfactory to the Bank, formulate programs or plans of actions, for purposes of carrying out such recommendations. Without limitation to the foregoing, the Borrower in respect of studies referred to in Schedule 5 to this Agreement shall formulate such programs or plans of action (i) in respect of the study referred to in paragraph E, by November 1, 1990; and (ii) in respect of the studies referred to in paragraphs A and H.1, by January 31, 1990.

Section 3.04. (a) The Borrower shall maintain or cause to be maintained separate records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section 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 four months after the end of each such year, a certified copy of 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 audits 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 3.05. (a) Upon the fulfillment by the Borrower of the conditions listed under paragraph 3 of Schedule 1 to this Agreement and subject to agreement by the Borrower and the Bank on the terms and conditions to be applied in this case, the Borrower shall have the option to use a portion of the proceeds of the loan, up to an amount equivalent to eighty-five million five hundred thousand dollars (\$87,500,000), for the implementation of a Debt Reduction Plan which in the judgement of the Bank shall meet the requirements of the Bank's support of debt reduction programs.

(b) For purposes of this Section 3.05, "Debt Reduction Plan" means a plan of the Borrower submitted to the Bank for the partial funding under this Agreement to reduce the Borrower's principal payments on its external loans from non-official creditors.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the macro-economic policy framework of the Borrower is consistent with the objectives of the Program;

(b) that the Borrower shall have announced a program and timetable, both satisfactory to the Bank, for removing, restructuring and reducing import tariffs;

(c) that the Borrower shall have reduced the coverage of Non-tariff Barriers on manufactured items to not more than twenty-five percent (25%) of the total production of items manufactured in Venezuela, such coverage to be calculated in accordance with methods and assumptions acceptable to the Bank;

(d) that the Borrower shall have removed all specific import tariffs;

(e) that the Borrower shall have abolished its system under which exonerations (exoneraciones) are granted for imported items from import tariffs, except that the Borrower may continue such exonerations in respect of CKD Units and basic commodities acceptable to the Bank for purposes of such exonerations;

(f) that the Borrower shall have reduced all import tariffs so that the maximum import tariff shall not exceed eighty percent (80%) of the dutiable value of the item imported;

(g) that the Borrower shall have abolished all monopolies or other exclusive rights of enterprises owned by the Borrower to import goods and materials; and

(h) that the Borrower shall have abolished all restrictions on exports of manufactured items, except that the Borrower may maintain such restrictions in respect of basic commodities acceptable to the Bank for such purposes.

Section 5.02. The date January 16, 1990 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower (Ministro de Hacienda) is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministerio de Hacienda
Edificio Norte
Centro Simon Bolivar
Caracas 1010, Venezuela

Telex:

24215 HDACP

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)

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 VENEZUELA

By /s/ Sonia Perez Rodriguez
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ping-Cheung Loh
Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Loan may be withdrawn from the Loan Account for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and, in respect of Technical Assistance Expenditures, services, required during the execution of the Program and to be financed out of such proceeds.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones,

Group	Sub-group	Description of Items
		unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

(b) expenditures, other than Technical Assistance Expenditures, in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$35,000,000, excluding withdrawals for any Technical Assistance Expenditures, may be made on account of payments made for such expenditures before that date but after June 12, 1989;

(d) expenditures for goods procured under contracts costing less than \$10,000 equivalent;

(e) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance;

(f) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

(g) expenditures for foodstuffs;

(h) expenditures for goods, the importation of which is subject to Non-tariff Barriers in Venezuela; and

(i) Technical Assistance Expenditures when the aggregate withdrawals in respect of such expenditures shall have reached the equivalent of \$3,000,000.

3. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures, other than Technical Assistance Expenditures, to be financed out of the proceeds of the Loan, after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments, excluding withdrawals and commitments in respect of the Technical Assistance Expenditures, shall have reached the equivalent of \$200,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (a) with the progress achieved by the Borrower in the carrying out of the Program; (b) that the actions described in Schedule 4 to this Agreement have been taken; and (c) that the macro-economic policy framework of the Borrower is consistent with the objectives of the Program.

4. If, after an exchange of views described in paragraph 3 above, the Bank shall have given notice to the Borrower that the macro-economic policy framework of the Borrower is not consistent

with the objectives of the Program or that the progress achieved in the carrying out of the Program or the actions taken pursuant to Schedule 4 to this Agreement are not satisfactory, and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof, other than the amount required in respect of the Technical Assistance Expenditures.

5. The provisions of this Schedule are without prejudice to the provisions of Section 3.05 of the Loan Agreement.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 15 and August 15	
beginning February 15, 1995 through August 15, 2004	17,650,000

* 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 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 3

Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding 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), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Business; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. (a) Contracts for goods, other than goods referred to in paragraph (b) below, estimated to cost the equivalent of less than \$5,000,000 each shall be awarded on the basis of procurement procedures satisfactory to the Bank.

(b) Contracts for computer equipment to be acquired as part of the activities referred to in Schedule 5 to this Agreement, up to the aggregate amount equivalent to \$100,000, and contracts for computer programs to be acquired as part of said activities, up to the aggregate amount equivalent to \$50,000, may be awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures satisfactory to the Bank. The amount of each such contract for computer equipment or programs shall not exceed the equivalent of \$25,000.

3. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

4. With respect to each contract referred to in paragraph 2 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

5. The provisions of the preceding paragraphs 3 and 4 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.

SCHEDULE 4

Actions Referred to in Paragraph 3 (b) of Schedule 1 to this Agreement

1. The Borrower shall have reduced the coverage of Non-tariff Barriers on manufactured items to not more than fifteen percent (15%) of the total production of items manufactured in Venezuela, such coverage to be calculated in accordance with methods and assumptions acceptable to the Bank.
2. The Borrower shall have revised its import tariff in a manner satisfactory to the Borrower and the Bank to the effect that: (i) the maximum import tariff shall not exceed fifty percent (50%) of the dutiable value of the item imported; and (ii) the number of tariff rates (niveles arancelarios) shall be not more than six.
3. The Borrower shall have excluded all products and services from its system of export bonuses (bonos de exportacion), pursuant to which exporters receive a certificate to be used towards payment of taxes to the Borrower, and shall have submitted to its Congress for approval draft legislation in order to abolish such system of export bonuses.
4. The Borrower shall have drafted and put into effect and, when required, submitted to its Congress for approval, amendments, satisfactory to the Bank, to the Borrower's legal framework, pursuant to which the Borrower adopts antidumping and antisubsidy procedures consistent with GATT.
5. The Borrower shall have established and commenced the implementation of (a) a duty-drawback regime; and (b) improvements to its temporary admission regime, both satisfactory to the Bank.

SCHEDULE 5

Technical Assistance

A. Customs Administration and Trade Facilitation

1. A study of all aspects of the Borrower's customs administration, including valuation, classification, facilities, import controls, statistics and trade facilitation.
2. Implementation of administrative improvements on the basis of the study referred to in paragraph 1 above.

B. Accession to GATT

1. A study on the legal provisions of GATT and their detailed legal and economic implications in connection with accession to GATT.
2. Consultations on the implications of accession to GATT between officials of the Borrower and officials of other countries which have acceded to GATT.
3. A public seminar to be intended, among other participants, for officials of the Borrower and representatives of private sector enterprises, on the implications for the Borrower and its private sector of the GATT system and trends in the international trade.
4. Acquisition and utilization of computer equipment and computer programs on international trade flows, tariffs and Non-tariff Barriers.

C. Antidumping and Antisubsidy Legislation and Procedures

Legal assistance for purposes of preparing the necessary amendments to the Borrower's laws, regulations and procedures in order to adopt antidumping and antisubsidy procedures consistent

with GATT.

D. Duty-Drawback and Temporary Admissions Schemes

A comparative study of the temporary admissions and the duty drawback regimes of the Borrower and other countries for purposes of adopting accurate, transparent and simple temporary admissions and duty drawback procedures for Venezuelan exporters.

E. Agricultural Sector

A study concerning the incidence of Non-tariff Barriers on agricultural products, and the costs and benefits of export prohibitions in respect of agricultural products.

F. Restructuring of MD

Technical assistance for purposes of supporting the Borrower's restructuring of MD to enable said Ministry to assume new functions in the area of industrial promotion and restructuring, such technical assistance to include training of MD's staff.

G. Data Processing Equipment and Computer Programs

Acquisition and utilization of computer equipment and computer programs for the Ministries of the Borrower responsible for analyzing, implementing and monitoring the Program.

H. Industrial Restructuring Program

Technical assistance in connection with the restructuring of Venezuelan industrial enterprises for purposes of accelerating adjustment to the relative price changes in connection with the Program, such technical assistance to consist of:

1. A study of the Borrower's industrial regulations and incentives;
 2. Studies of the competitiveness of the Venezuelan industrial enterprises and of the potential for improving performance and its socio-economic impact; and
 3. Direct technical assistance to be provided to Venezuelan industrial enterprises for advising said enterprises on specific restructuring and development measures, costs of said measures and their financial impact.
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