

Conformed Copy

LOAN NUMBER 4005 AL

Loan Agreement

(Structural Adjustment Loan)

between

DEMOCRATIC AND POPULAR REPUBLIC OF ALGERIA

and the

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 3, 1996

LOAN NUMBER 4005 AL

LOAN AGREEMENT

AGREEMENT dated May 3, 1996, between DEMOCRATIC AND POPULAR REPUBLIC OF ALGERIA (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank):

WHEREAS (A) the Bank has received a letter dated April 2, 1996 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; 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 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 thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

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

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) The last sentence of Section 3.02 is deleted;

(c) Section 4.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement."

(d) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions. Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(e) The last sentence of Section 5.03 is deleted;

(f) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement.";

(g) 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

(h) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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) "Deposit Accounts" means the accounts referred to in Section 2.02(b) of this Agreement;

(b) "Banque d'Algerie" means the Borrower's central bank, operating pursuant to the Borrower's Law No. 90-10, dated April 14, 1990, as the same may be amended from time to time;

(c) "Public Enterprise" means an enterprise or entity with juridical personality and independent patrimony, a majority or all of the outstanding voting stock, or other proprietary interest, of which is owned, or effectively controlled, by the Borrower, by an agency thereof or by a local authority thereof, and this term shall include a division of a Public Enterprise, a public service activity and commercial activity undertaken by the Borrower or a local authority thereof;

(d) "Part of the Second Privatization Program" means a part, agreed upon between the Borrower and the Bank, of the Borrower's second privatization program, consisting of Public Enterprises that shall: (a) be brought to the point-of-sale; (b) have their respective services offered to be transferred, under concession arrangements, to private juridical or natural persons; (c) be legally dissolved; or (d) have the respective powers and prerogatives relevant to the management thereof offered to be transferred, under management contracting arrangements, to private

juridical or natural persons;

(e) "Restructuring Fund" means the Borrower's fund created pursuant to Section 143 of the Budget Law for Fiscal Year 1991 of the Borrower, as the same may be amended from time to time;

(f) "State-Owned Commercial Banks" means Credit Populaire d'Algrie, Banque de l'Agriculture et du Developpement Rural, Banque Extrieure d'Algrie, Banque Nationale d'Algerie and Banque de Dveloppement Local;

(g) "PAIG" means Programme d'Activits d'Intert General, the Borrower's public interest program which targets members of the population who are able-bodied and with no income, established pursuant to Legislative Decree No. 94-08 of the Borrower, dated May 26, 1994, as the same may be amended from time to time;

(h) "AFS" means Allocation Forfaitaire de Solidarit, the Borrower's cash transfer program which targets members of the population with no income who are either over sixty (60) years of age or handicapped, established pursuant to Legislative Decree No. 94-08 of the Borrower, dated May 26, 1994, as the same may be amended from time to time;

(i) "Unemployment Insurance" means the Borrower's scheme designed to indemnify employees whose employment shall have been terminated for economic reasons established pursuant to Legislative Decree No. 94-11, dated May 26, 1994, as the same may be amended from time to time;

(j) "LSMS" means the Living Standard Measurement Survey, a survey carried out by the Borrower in 1995; and

(k) "Fiscal Year" means the fiscal year of the Borrower commencing on January 1 and ending on December 31.

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 three hundred million dollars (\$300,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in Banque d'Algrie, five (5) deposit accounts in dollars, pounds sterling, French francs, Japanese yen and deutch mark on terms and conditions satisfactory to the Bank. Each withdrawal from the Loan Account shall be deposited by the Bank into the Deposit Account denominated in the currency in which such withdrawal is requested.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, (i) deposit into one or more Deposit Accounts an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawal shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of one hundred fifty million dollars (\$150,000,000), 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: (i) with the progress achieved by the Borrower in the carrying out of the Program; and (ii) that the actions described in Schedule 3 to this Agreement have been taken. If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken 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.

Section 2.03. The Closing Date shall be April 30, 1998, 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 for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during 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 determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on April 1 and October 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 2 to this Agreement.

ARTICLE III

Particular Covenants

718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728.43	-	Tobacco processing machinery
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)

4. expenditures for goods intended for a military or para-military purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party); and

6. in furtherance of the purposes of Section 5.01 of the General Conditions, expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
On each April 1 and October 1 beginning October 1, 2001 through April 1, 2013	12,500,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 3

Actions Referred to in Section 2.02 (d) of this Agreement

A. Macroeconomic Framework

Continued maintenance of a macroeconomic framework satisfactory to the Bank.

B. Budgetary Policy

1. (a) Submission to the Bank, of two (2) programs, prepared in relation to the Borrower's budget law for Fiscal Year 1997, covering (i) public investments and recurrent expenditures in respect of sectors covered by the public expenditure review jointly undertaken by the Borrower and the Bank; and (ii) personnel expenditures; (b) discussion with the Bank of the programs referred to under sub-paragraph (a) above; and (c) integration into the Borrower's draft budget law for Fiscal Year 1997, as adopted by the Council of Government of the Borrower, of measures agreed in consultation with the Bank based on the review referred to under sub-paragraph (a) above.

2. Progress, in accordance with a timetable agreed upon between the Borrower and the Bank, toward the closure of the Restructuring Fund.

C. Privatization

Carrying out Part of the Second Privatization Program.

D. Agricultural Sector

Adoption by the Council of Government of the Borrower of draft legislation defining the methods of carrying out the privatization of state-owned agricultural land; such draft legislation, as adopted, shall have to be deemed acceptable to the Bank.

E. Financial Sector

Reduction, to a level agreed upon with the Bank, of outstanding overdrafts issued by the State-Owned Commercial Banks to their customers, other than the Borrower.

F. Social Safety Net

Implementation of measures agreed upon with the Bank which aim at (a) strengthening PAIG, AFS and the Unemployment Insurance; and (b) improving, on the basis of the findings of LSMS, the targeting of the social protection programs of the Borrower which benefit the economically vulnerable groups of the population.

