

CONFORMED COPY

LOAN NUMBER 3091 VE

(Structural Adjustment Loan)

between

REPUBLIC OF VENEZUELA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 16, 1989

LOAN NUMBER 3091 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 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 the financing of urgently needed imports and services required during 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 program referred to in Section 3.03 of this 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 of the Borrower;

(c) "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 Section 3.03 of this Agreement;

(d) "FIV" means Fondo de Inversiones de Venezuela;

(e) "FONCREI" means Fondo de Credito Industrial;

(f) "CORDIPLAN" means Oficina Central de Coordinacion y Planificacion de la Presidencia de la Republica, the Central Office of Coordination and Planning of the Presidency of the Borrower;

(g) "CORPOINDUSTRIA" means Corporacion de Desarrollo de la Pequena y Mediana Industria;

(h) "FINEXPO" means Fondo de Financiamiento de las Exportaciones;

(i) "BANDAGRO" means Banco de Desarrollo Agropecuario;

(j) "PDVSA" means Petroleos de Venezuela, S.A.;

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

(1) "Rate Base" means the value of the assets of a utility company, calculated in accordance with methods and assumptions satisfactory to the Bank.

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 four hundred and two million dollars (\$402,000,000), 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. 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 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 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 a technical assistance program, satisfactory to the Bank, which shall include (1) technical assistance and training in the areas of (i) alleviation of poverty and design of social programs; (ii) reform of the tax laws and regulations of the Borrower; (iii) restructuring of enterprises owned by the Borrower and the possible sale to private purchasers of all or a part of the Borrower's ownership interest in any of such enterprises, the pricing practices and policies of such enterprises, and the institutional arrangements governing such enterprises; (iv) public investment, in particular the procedures and priorities thereof; and (v) external debt management; and (2) acquisition and utilization of computer and other office equipment for purposes of carrying out such technical assistance program. Without limitation to the foregoing, the Borrower shall as part of such technical assistance program establish, not later than December 31, 1989, a program, satisfactory to the Bank, to improve the Borrower's technical capacity to conduct surveys for poverty analysis and to evaluate poverty alleviation programs. The Borrower shall provide, promptly as needed, the facilities, staff, funds and other resources for the execution of such technical assistance program.

(b) For purposes of carrying out the technical assistance program referred to in paragraph (a) above, 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.

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 one hundred million dollars (\$100,000,000) 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.

Section 3.06. (a) The Borrower shall carry out, under terms of reference satisfactory to the Bank, studies on (i) the purposes and objectives of FIV; (ii) the feasibility of developing differentiated products targeted to the poor; and (iii) the feasibility of establishing a stabilization fund, in which there would be deposited certain petroleum revenues in periods when petroleum prices are high, with such funds to be utilized in periods when said prices are low.

(b) The Borrower shall promptly upon the completion of each such study and not later than December 1, 1989, provide to the Bank, for comments, a copy of its findings and recommendations.

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 framework of the Borrower is consistent with the objectives of the Program;

(b) that the Borrower shall have caused its public development funds, including, without limitation, FIV, FONCREI, CORPOINDUSTRIA, FINEXPO and BANDAGRO to make adjustments, satisfactory to the Borrower and the Bank, in the interest rates charged by such development funds, on loans to their borrowers, taking into account the prevailing commercial bank lending rates;

(c) that the Borrower shall have presented to the Bank a social action program, including the specific activities and funding therefor, all satisfactory to the Borrower and the Bank, for purposes of providing subsidies, direct assistance and other assistance measures to the poor during the year 1989, and the Borrower shall have commenced the implementation of such program;

(d) that the Borrower, according to a plan satisfactory to the Borrower and the Bank, shall have put into effect adjustments in the prices of petroleum, fertilizers, telecommunications services, electricity, natural gas, steel, aluminum, iron ore and petro-chemical products;

(e) that the Borrower shall have established and put into effect a system, satisfactory to the Borrower and the Bank, for adjusting the Rate Base of electric utility companies in a manner which takes into account inflation;

(f) that the Borrower shall have established a committee, consisting, inter alia, of the Ministers of Finance and Development, the Minister of State and head of CORDIPLAN, and the Minister of State and President of FIV, with a secretariat comprising duly qualified and experienced staff, and shall have assigned to said committee functions and responsibilities satisfactory to the Borrower and the Bank, which shall include: (i) the establishment of criteria for determining the restructuring, sale to private purchasers and the liquidation of enterprises owned by the Borrower; and (ii) the review and approval of proposals to restructure such enterprises or to sell all or a part of the Borrower's ownership interest in any of such enterprises to private purchasers;

(g) that the Borrower shall have furnished to the Bank: (i) a complete listing of enterprises wholly or partially owned by the Borrower with key financial data, including, when available, statements of assets and liabilities and statements of income of such enterprises; and (ii) a list of at least ten such enterprises which have been identified by the Borrower as enterprises in respect of which the potential sale of the Borrower's ownership interest shall be reviewed by the committee referred to in paragraph (f) above; and

(h) that the Borrower shall have presented to the Bank a public investment program, satisfactory to the Borrower and the Bank, in respect of the year 1989, which shall include, without limitation, the investment levels proposed for: (i) PDVSA; (ii) enterprises, other than financial institutions, wholly or partially owned by the Borrower; and (iii) the remainder of the public sector.

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, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors

Group	Sub-group	Description of Items
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 may be made on account of payments made for such expenditures before that date but after June 12, 1989 in respect of: (i) expenditures, other than Technical Assistance Expenditures, in an aggregate amount not exceeding the equivalent of \$80,000,000; and (ii) Technical Assistance Expenditures, in an aggregate amount not exceeding the equivalent of \$400,000;

(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 in excess of an aggregate amount equivalent to \$40,000,000 for foodstuffs; and

(h) Technical Assistance Expenditures when the aggregate withdrawals in respect of such expenditures shall have reached the equivalent of \$2,000,000.

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 the exchange of views described in paragraph 3 above, the Bank shall have given notice to the Borrower that progress achieved in the carrying out of the Program or actions taken pursuant to Schedule 4 to this Agreement are not satisfactory, or that the macro-economic policy framework of the Borrower is not consistent with the objectives of the Program 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.

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)
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On each February 15 and August 15

beginning February 15, 1995 through August 15, 2004	20,100,000
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* 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	0.20
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before maturity	
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 and office equipment to be acquired as part of the technical assistance program referred to in Section 3.03 of this Agreement 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 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. Progress shall have been made in the carrying out of the technical assistance program referred to in Section 3.03 to this Agreement.

2. (a) Progress shall have been made in implementing the social action program referred to in Section 5.01 (c) to this Agreement;

(b) the Borrower shall have presented to the Bank a social action program, including the specific activities and funding therefor, all satisfactory to the Borrower and the Bank, for purposes of providing subsidies, direct assistance and other assistance measures to the poor during the year 1990; and

(c) in the event that the exchange of views referred to in paragraph 3 (b) of Schedule 1 to this Agreement is held after the year 1989, progress shall have been made in the implementation of the program referred to in paragraph (b) above.

3. The Borrower, (a) according to a plan satisfactory to the Borrower and the Bank, shall have put into effect adjustments in the prices of petroleum and fertilizers; and (b) shall have put into effect adjustments in the prices of aluminum, iron ore, steel and petrochemical products to the effect that said prices shall at least equal the export opportunity cost, "export opportunity cost" for purposes of the foregoing to be determined in accordance with methods and assumptions acceptable to the Bank.

4. The Borrower shall have made progress in respect of the restructuring of enterprises owned by the Borrower and the sale of all or part of the Borrower's ownership interest in such enterprises to private purchasers and, without limitation of the foregoing, the committee referred to in Section 5.01 (g) of this Agreement shall have approved the sale of the Borrower's ownership interest to such purchasers in respect of at least ten such enterprises and shall have completed all valuations and tender or bidding documents, to the satisfaction of the Borrower and the Bank, for such sale in respect of at least five such enterprises.

5. The Borrower shall have presented to the Bank a public investment program in respect of the year 1990, satisfactory to the Borrower and the Bank, including, without limitation, the

investment levels proposed therein for: (i) PVDSA; (ii) enterprises, other than financial institutions, wholly or partially owned by the Borrower; and (iii) the remainder of the public sector.

6. The Borrower shall have caused its public development funds, including, without limitation, FIV, FONCREI, CORPOINDUSTRIA, FINEXPO and BANDAGRO, to establish and commence the implementation of procedures, satisfactory to the Borrower and the Bank, for setting the interest rates charged by such development funds so that such rates reflect the cost of funds plus an appropriate margin to cover operating costs.

