

CONFORMED COPY

LOAN NUMBER 2903 PO

(Third BFN Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

BANCO DE FOMENTO NACIONAL

Dated April 10, 1989

LOAN NUMBER 2903 PO

LOAN AGREEMENT

AGREEMENT, dated April 10, 1989, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BANCO DE FOMENTO NACIONAL (the Borrower).

WHEREAS (A) the Republic of Portugal (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 guarantee the obligations of the Borrower in respect of the Loan 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 modifications set forth in Schedule 4 to this Agreement (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) "Sub-loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to an Investment Enterprise for an Investment Project;

(b) "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 2 (b) of Schedule 5 to this Agreement;

(c) "eligible industrial enterprise" means: (i) any enterprise operating within the industrial sector and organized under the Guarantor's Law No. 262/86 of September 2, 1986; and (ii) any Nationalized Enterprise selected by agreement between the Bank and the Borrower;

(d) "Nationalized Enterprise" means any enterprise operating within the industrial sector other than an enterprise referred to in Section 1.02 (c) (i) of this Agreement of which the outstanding proprietary interest is owned or effectively controlled by the Guarantor;

(e) "Investment Enterprise" means an eligible industrial enterprise to which the Borrower proposes to make or has made a Sub-loan;

(f) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(g) "Statutes" means the statutes of the Borrower, approved by Decree-Law No. 323/72 dated August 19, 1972, as amended to the date of this Agreement;

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

(i) "Subsidiary Arrangements" means the arrangements for the implementation of Part A (1) of the Project to be concluded between the Borrower and the Guarantor pursuant to paragraph A.6 of Schedule 8 to this Agreement; and

(j) "Category" means any withdrawal category set forth in the table in paragraph 1 of Schedule 1 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, an amount in various currencies equivalent to sixty million dollars (\$60,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank

shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project, including the Investment Projects, and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in the Guarantor's Treasury or a financial institution acceptable to the Bank a special account, in dollars 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 7 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1994 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 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 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 semi-annually on March 1 and September 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the Amortization Schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project; Management and Operations of the Borrower

Section 3.01. 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 with due diligence and efficiency and in conformity with appropriate technical, administrative and economic practices, and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Statutes, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Bank and the Borrower shall otherwise agree, the Borrower shall:

(a) carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 8 to this Agreement;

(b) make Sub-loans under Part B of the Project in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement; and

(c) exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Part A of the Project and for Investment Projects to be carried out by Nationalized Enterprises, and to be financed out of the proceeds of the Loan, shall be governed by the provisions of Schedule 6 to this Agreement.

ARTICLE IV

Other Covenants

Section 4.01. The Borrower shall: (a) maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower; and (b) to this end, ensure that an accountant/auditor and an electronic data processing auditor, duly qualified and experienced, are appointed to and maintained in its Internal Auditing Department, in accordance with the provisions of Part D of Schedule 8 to this Agreement.

Section 4.02. (a) The Borrower shall:

- (i) have the records referred to in Section 4.01 (a) of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound 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 (6) months after the end of each such year, (A) certified copies of said 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 such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) 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 Section 4.01 (a) of this Agreement, 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 (a) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.03. (a) The Borrower shall maintain a policy for the settlement and the writing-off of arrears on loans made by the Borrower which the Bank agrees is in accordance with appropriate accounting practices.

(b) Without limitation on the foregoing paragraph, the Borrower shall: (i) carry out a program for the reduction by at least 20% each year of arrears on loans made by the Borrower and outstanding as of December 31, 1986, so as to ensure that all such arrears are settled or written-off by December 31, 1991; and (ii) with respect to loans not now in arrears and those extended after December 31, 1986, use its best endeavors to ensure that arrears on such loans shall, at no time, exceed 6% of the outstanding loan amount.

Section 4.04. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.05. (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 10 to 1.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower maturing by its terms 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, and to the extent, the amount of such debt has become outstanding pursuant to such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding.
- (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.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely that the Statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, the event specified in paragraph (a) of Section 5.01 shall occur.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Chief Executive Officer of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. 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:

Banco de Fomento Nacional
Avenida Casal Ribeiro, 59
1000 Lisboa
Portugal

Cable address:

BANCOFOMENTO LISBOA

Telex:

12381 Fobanc P

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.

RECONSTRUCTION AND DEVELOPMENT

By /s/ Eugenio Lari
Acting Regional Vice President
Europe, Middle East and North Africa

BANCO DE FOMENTO NACIONAL

By /s/ J. E. Pereira Bastos
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) Consultants' services for Part A of the Project	5,000,000	100%
(2) Goods for Part B of the Project	50,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost); and 50% of local expenditures for other items procured locally
(3) Consultants' services for Part B of the Project	5,000,000	100%
TOTAL	60,000,000	

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:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000, may be made on account of

payments made for expenditures before that date but after June 1, 1987; and

(b) for expenditures under Category (1) until evidence satisfactory to the Bank shall have been furnished to the Bank that the Subsidiary Arrangements have been executed on behalf of, and are legally binding upon, the Borrower and the Guarantor.

SCHEDULE 2

Description of the Project

The objectives of the Project are to strengthen the Borrower's management and operations and to assist in financing such productive facilities and resources in the Republic of Portugal as will contribute to the economic and social development of the country.

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

1. The carrying out of (a) a study of the white clay ceramics industrial subsector, and (b) a study of the wood and wood furniture or such other industrial subsector as the Bank may agree, all to develop suitable strategies for the restructuring and improvement of the management and operations of enterprises operating therein.

2. The carrying out of a program, based on the results and recommendations of the studies provided under Part A.1 hereof, to (a) strengthen staff capabilities in identifying and appraising enterprise restructuring programs through the provision of on-the-job training, and (b) provide advice to specific enterprises operating within the industrial subsectors referred to in Part A.1. hereof on the design of restructuring programs.

3. The carrying out of a study to develop an integrated management information system and an appropriate internal audit system and based on the results and recommendations thereof, the development and application of a suitable financial information system.

4. The strengthening of the staff of the Internal Audit Department.

Part B:

The financing, through the provision of loans, including Sub-loans, to eligible industrial enterprises, of specific development projects, including those for the carrying out of restructuring programs designed under Part A (2) (b) hereof.

* * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 1 and September 1	
beginning September 1, 1991 through March 1, 2003	\$2,500,000

* The figures in this column represent dollar equivalent 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 3 years before maturity	0.20
More than 3 years but not more than 6 years before maturity	0.40
More than 6 years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

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

(2) The words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in subparagraph 3 (c) of Schedule 5 to the Loan Agreement, the Bank shall, in respect of any portion of Portion B of the Loan; (i) have received no applications or requests under subparagraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests. The Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

SCHEDULE 5

Procedures for and Terms and Conditions of Sub-loans

The provisions of this Schedule shall apply for the purposes of Section 3.02 (b) of this Agreement.

1. Sub-loans shall be made on the following terms and conditions:

(a) The principal amount of each Sub-loan shall be the equivalent in the currency of the Guarantor (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of the goods to be financed out of the proceeds of the Loan allocated from time to time to Categories (2) and (3); provided, however, that the principal amount of the Sub-loan or Sub-loans made for any one Investment Project shall not exceed the equivalent of \$7,000,000.

(b) Sub-loans shall each: (i) have a maturity of not more than 12 years, inclusive of a grace period of not more than 2 years; and (ii) be made on other terms, including those relating to interest and other charges, which are in accordance with the Borrower's applicable policies and practices pursuant to the Statutes; provided, however, that the interest rate to be charged on the principal amount thereof withdrawn and outstanding from time to time shall be positive in real terms and be equal at least to (A) the interest rate applicable from time to time to the Loan pursuant to Section 2.05 of this Agreement, and (B) any additional charge, to be paid on the Sub-loan to the Guarantor, calculated on the basis of guidelines satisfactory to the Bank, designed to cover the foreign exchange risk on the Sub-Loan. For the purposes hereof, the interest rates shall be considered positive in real terms if such rates are higher than the rate of domestic inflation of the Guarantor as indicated in the Consumer Price Index published by the National Institute of Statistics of the Guarantor.

(c) Sub-loans shall be made only for Investment Projects which are technically feasible and designed in accordance with appropriate safety, health and environmental standards, satisfactory to the Bank, and which are each calculated to have a financial rate of return equal at least to the real rate of interest applicable to the Sub-loan under which such Investment Project is to be carried out on the date upon which such Sub-loan is to be made, and an economic rate of return of at least 12%, all as shall be established on the basis of appraisals carried out in accordance with guidelines satisfactory to the Bank.

2. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be a Sub-loan (other than: (i) the first five Sub-loans for the carrying out of restructuring programs designed under Part A (2) (b) of the Project; and (ii) Sub-Loans to Nationalized Enterprises) for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$2,500,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan or of any other loan, provided for in any

outstanding loan agreement between the Bank and the Borrower entered into before the date of this Agreement, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project.

3. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before June 30, 1991.

4. Sub-loans shall be made on terms whereby the Borrower shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with safety, health and environmental standards, satisfactory to the Bank, and sound technical, financial and managerial standards and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) require: (i) (A) Investment Enterprises other than Nationalized Enterprises to ensure that the goods and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price (in the case of goods, on the basis of a comparison of quotations obtained from at least three suppliers), account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; and (B) Nationalized Enterprises to ensure that the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 6 to this Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Bank, if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Bank or the Borrower

shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with the Borrower.

SCHEDULE 6

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods 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. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost the equivalent of \$3,000,000 or more each.

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 the Republic of Portugal may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Goods which the Bank agrees cannot be grouped pursuant to paragraph A.2 hereof and which are estimated to cost the equivalent of \$2,000,000 or more contract but less than the equivalent of \$3,000,000 per contract may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

2. Goods which the Bank agrees cannot be grouped pursuant to paragraph A.2 hereof and which are estimated to cost less than the equivalent of \$2,000,000 per contract may be procured under contracts awarded on the basis of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$3,000,000 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 following procedures shall apply: (i) the

Borrower shall furnish to the Bank, promptly after its execution and prior to delivery 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 comparison of the respective price quotations and such other, information as the Bank shall reasonably request. The Bank shall, if it determines that the award of the contract, or the contract itself, is not consistent with this Agreement or the Guidelines, promptly inform the Borrower and state the reasons for such determination; and (ii) the procedures set forth in paragraph 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 this paragraph shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 7 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 4.02 (b) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

Consultants' services shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who 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 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 the Project, including the Investment Projects, 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, provided, however, that notwithstanding the provisions of paragraph 2 (b) of Schedule 5 to this Agreement, payments for expenditures to be financed out of the proceeds of the Loan under free-limit Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; 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) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

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

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

- (i) the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any

amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account.

SCHEDULE 8

Implementation Program for Part A of the Project

The provisions of this Schedule shall apply for the purposes of Section 3.02 (a) of this Agreement.

A. Part A.1 of the Project

1. Part A.1 of the Project will be jointly financed by the Borrower and the Guarantor and will be carried out by the Borrower with the cooperation and assistance of the Guarantor through its Ministry of Industry and Energy (MIE) in accordance with the arrangements referred to in paragraph 6 hereof.

2. In order to assist the Borrower in carrying out the studies under Part A.1 of the Project, the Borrower shall: (a) employ consultants whose selection shall have been approved by the work group referred to in paragraph 3 hereof and whose qualifications, experience and terms of reference shall have been found satisfactory by the Bank; and (b) assign suitably qualified members of its staff to participate on a full time basis in the work of the consultants to be so employed and subsequently to participate on the same basis in the work of the consultants referred in Part B.1 hereof. The consultants who are to assist in carrying out the first study referred to under Part A.1 (a) of the Project have already been employed and are expected to complete said study by July 31, 1988. The Borrower undertakes to employ the consultants to assist in carrying out the second study referred to under Part A.1 (b) of the Project not later than sixty days of the expected date of completion of the draft of said first study.

3. For the purpose of selecting the consultants to be employed as indicated in paragraph 2 hereof, and, thereafter, for supervising the progress of their work and reviewing, together with the Bank as set forth in paragraph 4 hereof, and finalizing their conclusions and recommendations at the completion of their work, a work group, comprising representatives of the Guarantor, the Borrower and enterprises operating within the industrial subsector concerned, shall be maintained for each of the studies referred to under Part A.1 of the Project, under terms of reference satisfactory to the Bank.

4. Not later than three months after the preparation of the two studies under Part A.1 of the Project, the Borrower shall furnish to the Bank copies of said studies, and the Guarantor and the Borrower shall afford the Bank a reasonable opportunity to meet and review with the working group concerned the conclusions and recommendations of said studies and to develop programs of objectives, policies and actions designed to achieve the structural adjustment of the industrial subsectors referred to in said Part A.1.

5. The costs of the consultants associated with the carrying out of the studies under Part A.1 of the Project will be shared in equal proportions by the Guarantor and the Borrower.

6. For the purpose of carrying out the provisions of this Part, the Borrower shall conclude with the Guarantor and thereafter maintain arrangements, satisfactory to the Bank, for the sharing of the costs of the consultants' services and for the carrying out of the studies and the development of the restructuring programs as outlined above.

B. Part A.2 of the Project

1. In order to assist the Borrower in carrying out Part A.2 of the Project, the Borrower shall: (a) employ consultants whose qualifications, experience and terms of reference shall be satisfactory to the Bank, or, in the alternative, shall continue the employment of the consultants referred to in paragraph 2 of Part A of this Schedule; and (b) maintain the assignment of its staff member referred to in Part A.2 (b) of this Schedule for the purposes indicated therein.

2. Part A.2 (b) of the Project shall be carried out under arrangements pursuant to which the enterprises benefitting from the provision of advice by the Borrower in the design of restructuring programs shall compensate the Borrower for all costs incurred by the Borrower in providing such advice.

C. Part A.3 of the Project

1. In order to assist the Borrower in carrying out Part A.3 of the Project, the Borrower shall employ consultants whose qualifications, experience, and terms of reference shall be satisfactory to the Bank.

2. The Borrower shall take all necessary measures on its part to ensure that the study referred to in Part A.3 of the Project to develop an integrated management information system and the internal audit system is completed and a copy thereof is furnished to the Bank by December 31, 1988 and, thereafter, the Bank is afforded a reasonable opportunity to review with the Borrower the conclusions and recommendations thereof. On the basis of the above review and the conclusions and recommendations of the study, the Borrower shall develop and adopt, in consultation with the Bank, a program for the introduction of a suitable integrated management information system, including, without limitation, the introduction by December 31, 1990, of a suitable financial information system.

D. Part A.4 of the Project

The Borrower shall employ: (i) not later than June 30, 1988, consultants whose qualifications, experience and terms of reference shall be satisfactory to the Bank, to continue to carry out the functions of the accountant/auditor referred to in Section 4.01 (b) of this Agreement; and (ii) promptly upon the completion of the study referred in Part C.2 hereof, and on the basis of the exchange of views with the Bank thereon, consultants whose qualifications, experience and terms of reference shall be satisfactory to the Bank, to carry out the functions of the electronic data processing auditor referred to in Section 4.01 (b) of this Agreement; in both cases until such time as the Borrower shall have appointed duly qualified and experienced members of its staff to undertake such functions within its Internal Auditing Department.

