

CONFORMED COPY

LOAN NUMBER 3224-VE

(Financial Sector Adjustment Loan)

between

REPUBLIC OF VENEZUELA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 15, 1990

LOAN NUMBER 3224-VE

LOAN AGREEMENT

AGREEMENT, dated October 15, 1990, between REPUBLIC OF VENEZUELA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated May 23, 1990 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's financial sector (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) it is contemplated that the Borrower may require assistance from the Bank in the implementation of a Debt Reduction Plan (as hereinafter defined);

(C) the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(D) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program and the Project to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided; and

(E) the Borrower hereby represents to the Bank that the execution of this Agreement has been duly authorized by the Borrower's Law "LEY PROGRAMA PARA EL FINANCIAMIENTO DEL PLAN DE INVERSIONES EN INFRAESTRUCTURA SOCIAL Y EN INFRAESTRUCTURA DE APOYO A LA PRODUCCION, DEL PROGRAMA DE DESARROLLO SOCIAL, DEL PROGRAMA DE PREINVERSION, SUPERVISION Y ASISTENCIA TECNICA, DEL PLAN DE INVERSIONES DE ENTES DEL SECTOR PUBLICO Y DE OPERACIONES DE REDUCCION DE LA DEUDA PUBLICA EXTERNA, QUE SE EJECUTARA DURANTE EL PERIODO 1990 - 1994" published in the Borrower's Official Gazette Extraordinary Issue No. 4194 dated July 30, 1990.

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 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 joint 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 carrying out of the Project, 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

(b) 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) "Fiscal Year" means the fiscal year of the Borrower, beginning on January 1 of each year;

(c) "Debt Reduction Plan" means a plan of the Borrower submitted to the Bank for partial funding under this Agreement to reduce the Borrower's eligible payments on its external loans from non-official creditors;

(d) "First Tranche", "Second Tranche" and "Third Tranche" means the amount of the proceeds of the Loan allocated, from time to time, to Categories 1, 2 and 3, respectively, of paragraph 1 of Schedule 1 to this Agreement;

(e) "SBIF" means the Borrower's Superintendencia de Bancos e Instituciones Financieras (Superintendency of Banks and Financial Institutions);

(f) "FOGADE" means the Borrower's Fondo de Garantia de Depositos (Deposit Insurance Fund);

(g) "Central Bank" means Banco Central de Venezuela, the Borrower's Central Bank;

(h) "BIV", "ICAP" and "CORPOINDUSTRIA" mean the Borrower's Banco Industrial de Venezuela, Instituto de Credito Agricola y Pecuario and Corporacion de Desarrollo de la Pequena y Mediana Industria, respectively;

(i) "FIV" means the Borrower's Fondo de Inversiones de Venezuela;

(j) "SCS" means the Borrower's Superintendencia de Companias de Seguro;

(k) "BANDAGRO" means the Borrower's Banco de Desarrollo Agropecuario (Agricultural Development Bank);

(l) "Banking Law" means the Borrower Ley General de Bancos y Otros Institutos de Credito, as published in the Extraordinary issue of the Borrower's Official Gazette dated February 4, 1988;

(m) "Central Bank Law" means the Borrower's Ley del Banco Central de Venezuela, as published in the Extraordinary issue of the Borrower's Official Gazette dated August 21, 1987; and

(n) "Ley de Credito" means the Borrower's Ley Organica de Credito Publico, as published in the Extraordinary issue of the Borrower's Official Gazette dated September 14, 1983.

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 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. 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, 1993 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 semiannually on March 15 and September 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 3 to this Agreement.

Section 2.08. (a) The Minister of Finance of the Borrower, or the person or persons to be appointed by said Minister, are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of withdrawals under Categories 1 through 4 of Schedule 1 to this Agreement.

(b) Withdrawal applications under the Loan, other than for Part B of the Project, shall to the extent practicable be consolidated so as to apply for withdrawal of aggregate amounts of not less than one million dollars (\$1,000,000) equivalent.

ARTICLE III

Execution of the Project; Particular Covenants

Section 3.01. (a) The Borrower shall carry out Parts A and B of the Project, and if so determined under Section 3.05 of this Agreement, Part C of the Project, all with due diligence and efficiency and in conformity with appropriate commercial, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any restriction or limitation to the provisions of paragraph (a) of this Section, the Borrower shall: (i) coordinate all activities under Part B of the Project through a unit to be

established in the Central Bank and maintained until the carrying out of such Part of the Project shall have been completed; (ii) make the proceeds of the Loan withdrawn from time to time from the Loan Account under the provisions of this Agreement, particularly Section 2.08, and Schedule 1, available to the entities mentioned in Schedules 1 and 2 to the Loan Agreement on a grant basis; and (iii) enter into with the entities mentioned in (ii) hereof in as many contractual arrangements as shall be necessary to enable the Borrower to comply with all its obligations under this Agreement.

Section 3.02. (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 5 to this Agreement and on maintaining the consistency referred to in paragraphs 5 (b) and 6 (b) of Schedule 1 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 and on maintaining the consistency referred to in paragraphs 5 (b) and 6 (b) of Schedule 1 to this Agreement, in such detail as the Bank shall reasonably request.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and services to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

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 resources and expenditures in respect of the Project.

(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. Subject to agreement by the Borrower and the Bank on the terms and conditions to be applied in such case, the Borrower may use a portion of the proceeds of the Loan as provided in Schedule 1 to this Agreement for the implementation of a Debt Reduction Plan under Part C of the Project described in Schedule 2 to this Agreement.

Section 3.06. (a) The Borrower shall: (i) carry out all studies included in the Project under terms of reference satisfactory to the Bank; (ii) promptly after the completion of each such study, furnish to the Bank copy of its findings and recommendations; (iii) afford the Bank a reasonable opportunity to comment on such findings and recommendations; and (iv) where appropriate, prepare plans of action for the carrying out of such recommendations taking into account the Bank's comments thereon.

(b) The Borrower undertakes to carry out such plans of action as required to meet the objectives of the Project.

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 execution of Part B.1 (e) of the Project has been initiated, in form and under terms of reference satisfactory to the Bank; and

(c) that all such action as shall be necessary shall have been taken, in form and substance satisfactory to the Borrower and the Bank: (i) to put into effect new regulations which SBIF will have the responsibility to apply (A) strengthening, in general, the areas of loan portfolio classification and provisioning, loan rollovers and interest accrual, asset writing-off, and establishment of criteria for the measurement through indicators of investment quality, and for the valuation of collateral, and (B) requiring, in particular, each commercial and mortgage bank and finance company to institute a general loan loss provision of not less than 2% of its total loan portfolio and to write off any loan in respect of which one or more payments have been overdue by more than 36 months; (ii) to ensure that each SBIF institution is required to obtain, as part of its regular annual audits, a separate opinion from its external auditors on portfolio classification and loan concentration; (iii) to require BIV to invest the proceeds of new deposits and portfolio recoveries only in securities issued by the Borrower's Treasury or Central Bank until the resumption of BIV's activities pursuant to paragraph 9 of Part A of Schedule 5 to this Agreement;

and (iv) to limit BANDAGRO's on-going operations and to forbid new ones.

Section 5.02. The date of January 15, 1991 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 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
Direccion General Sectorial
de Finanzas Publicas
Edificio Norte, Piso 5
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:

Telex:

INTBAFRAD
Washington, D.C.

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

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/ Carlos Stark

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Husain

Regional Vice President
Latin America and the Caribbean

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) Imported goods under Part A of the Project to be financed under the First Tranche	71,000,000	100% of foreign expenditures
(2) Imported goods under Part A of the Project to be financed under the Second Tranche	71,000,000	100% of foreign expenditures
(3) Imported goods under Part A of the Project to be financed under the Third Tranche	76,000,000	100% of foreign expenditures
(4) Debt Reduction Plan	75,000,000	To be agreed by the Bank and the Borrower, subject to paragraph 8 below

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(5) Consultant services, studies and training under Part B of the Project	7,000,000	100%
TOTAL	300,000,000 =====	

2. For the purposes of this Schedule the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower, and the term "Table" means the table set forth in paragraph 1 of this Schedule.

3. 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
Group	Sub-group	Description of Items
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
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) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$60,000,000 may be made on account of payments made for such expenditures before that date but after March 31, 1990;

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

(d) 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;

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

(f) expenditures for foodstuffs in excess of the aggregate equivalent of \$45,000,000.

4. Withdrawals for expenditures under contracts for the procurement of goods, other than goods for Part B of the Project, estimated to cost less than \$5,000,000 may be permitted by the Bank upon the basis of statements of expenditure under such terms and conditions as the Bank shall specify.

5. 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 to be financed out of the proceeds of the Loan under Category 2 of the Table unless the Bank shall be satisfied, after an exchange of views as described in Section 3.02 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 Borrower's macro-economic framework is consistent with the objectives of the Program; and (c) that the actions described in Part A of Schedule 5 to this Agreement have been taken.

6. 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 to be financed out of the proceeds of the Loan under Category 3 unless the Bank shall be satisfied, after an exchange of views as described in Section 3.02 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 Borrower's macro-economic framework is consistent with the objectives of the Program; and (c) that the actions described in Parts A and B of Schedule 5 to this Agreement have been taken.

7. If, after any of the exchanges of views described in paragraphs 5 and 6 above, the Bank shall have given notice to the Borrower that the progress or level of consistency achieved, or actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress or consistency or 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.

8. If an agreement between the Borrower and the Bank for the use of the portion of the proceeds of the Loan designated for the implementation of a Debt Reduction Plan shall not have been entered into by February 28, 1991, or such later date as approved by the Bank, then the amount of \$75,000,000 under Category 4 shall, at the request of the Borrower, be reallocated in equal portions to Categories 1, 2 and 3 of the Table for Part A of the Project.

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in carrying out the adjustment of its financial sector, and, if so determined under Section 3.05 of this Agreement, in the implementation of a Debt Reduction Plan.

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: Imports

Financing of imported goods required during the execution of the Program.

Part B: Technical Assistance

Execution of a technical assistance program designed to strengthen the regulatory capabilities of SBIF, FOGADE, the Borrower's Banco Nacional de Ahorro y Prestamo (BANAP), Comision Nacional de Valores (CNV) and SCS, as shown below. Additionally, the program will also assist: (i) the Central Bank's unit referred to in Part B.5 below to coordinate all activities required to bring about the objectives of the Program and the Project; (ii) the Borrower's Ministry of Finance in its required reorganization pursuant to the Program; and (iii) BIV, ICAP and CORPOINDUSTRIA, in their respective restructuring programs.

1. SBIF (a) development of a new regulatory framework for SBIF and assisting SBIF in its implementation; (b) development of a new organizational structure for SBIF and assisting SBIF in the placement of staff in the new structure; (c) development of an inspection manual and of a synthesis of revised SBIF norms; (d) training of SBIF staff, including participation of staff in courses and seminars in Venezuela and abroad and in-house courses in selected subjects; and (e) assistance to help SBIF to perform external audits of substantial parts of portfolio of selected SBIF Institutions.

2. FOGADE (a) redefinition of FOGADE's objectives and development of a new operational plan, procedures and staffing profiles to achieve the new objectives; (b) execution of a study to assess FOGADE's financial condition and to design a medium-term financial management plan; and (c) training trips abroad for selected FOGADE

staff.

3. BANAP (a) execution of studies of the (i) value of portfolios of about 20 selected savings and loans institutions and (ii) of the financial position of BANAP; and (b) assisting BANAP in (i) developing and implementing action plans for the merger, restructuring or liquidation of the institutions studied under (a) (i) above; and (ii) developing a plan for the financial restructuring of BANAP on the basis of the study under (a) (ii) above.

4. SCS (a) evaluation of about 50 insurance companies in order to assess the state of the insurance industry; and (b) design of revised norms for SCS.

5. CENTRAL BANK (a) establishment of the unit referred to in Section 3.01 (b) of this Agreement that will also coordinate and help implement the Program; and (b) drafting of the proposed legislation and development of the plans and detailed actions thereunder, all as required for purposes of the revised legal provisions required under the Program and in order to meet conditions under Schedule 5 to this Agreement, including creation of new second-tier institutions.

6. Ministry of Finance: (a) development of plans of actions to reorganize the Ministry so as to adjust it to the new responsibilities arising thereto to coordinate and supervise the activities of the new second-tier institutions to be created under the Program, as well as those of INCAP and CORPOINDUSTRIA once restructured; and (b) acquisition and utilization of auditing services to enable the Borrower's compliance with its obligations under Section 3.04 of this Agreement.

7. CNV: execution of studies with the purpose of assessing capital markets in Venezuela, determining their constraints and developing action plans for their reform, if warranted.

Part C: Debt Reduction Plan

Assistance to the Borrower in the implementation of a Debt Reduction Plan which, in the judgement of the Borrower and of the Bank, shall meet the requirements of the Bank's support of debt reduction.

* * * *

The Project is expected to be completed by December 31, 1992.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15	
beginning September 15, 1995 through March 15, 2005	15,000,000

* 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
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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	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

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. Contracts for the procurement of goods estimated to cost the equivalent of less than \$5,000,000 shall be awarded:

(a) subject to paragraph (e) below, by purchasers required to follow the Borrower's public procurement procedures for the importation of goods, on the basis of such procedures, provided such procedures shall have been found acceptable to the Bank;

(b) by other purchasers, in accordance with established commercial practice, provided that such contracts shall be awarded on the basis of evaluation and comparison of quotations obtained from suppliers from at least two countries, except that direct contracting procedures acceptable to the Bank may be used where considered appropriate under paragraph 3.5 of the Guidelines;

(c) notwithstanding the provisions of subparagraph (b) above, in the case of the purchasers referred to therein, if the estimated cost of the contract is equivalent to less than \$1,000,000, in accordance with established commercial practices under procedures satisfactory to the Bank;

(d) by any purchasers for the supply of commodities, on the basis of evaluation and comparison of quotations obtained from more than one supplier; and

(e) with respect to Part B of the Project:

(A) Items or groups of items estimated to cost more than the equivalent of \$50,000 may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

(B) Items or groups of items estimated to cost less than the equivalent of \$50,000 may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

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, other than in sub-paragraph (e) thereof, 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. Review of invitations to bid and of proposed awards and final contracts in respect of each contract referred to in sub-paragraph (e) of paragraph 2 of this Schedule:

(a) With respect to each contract for goods estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

6. The provisions of the preceding paragraphs 4 and 5 (b) of this Schedule 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.

Section II. Employment of Consultants

In order to assist the Borrower in the carrying out of Part B of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Actions Referred to in Paragraphs 5 (b) and 6 (b)
of Schedule 1 to this Agreement

Part A:

1. SBIF: (a) shall have issued changes as presented by the Borrower under the Program, satisfactory to the Bank, to the regulations applicable to any bank or financial institution within SBIF's jurisdiction (SBIF Institution) on exchange risk valuation, loan concentration limits, and controls for transactions amongst any given group of SBIF Institutions inter-related through equity ownership or control, including requirements for consolidation of accounts of, and uniform criteria for preparation of financial statements for, each such group; and (b) shall have completed studies on portfolio review, fixed asset valuation, loan concentration and foreign exchange losses under Part B.1 of the Project.

2. The Borrower's Executive Branch shall have submitted to the Borrower's Congress a proposed law for the modification of laws currently governing SBIF as presented by the Borrower under the Program, satisfactory to the Bank, which, inter alia, will aim at (a) tightening norms on capital requirements and lending concentration, and widening the scope of sanctions, including fines, that SBIF is authorized to impose on any SBIF Institution that has not abide by SBIF's regulations; (b) reorganizing SBIF as an autonomous entity with its own revenues and with a budget subject only to Central Bank's Board approval; (c) granting full executive powers to the Superintendent subject, in respect of certain specific matters, to approval of a Consultative Committee; and (d) ensuring that the Superintendent will be supported by experienced and qualified management who shall report exclusively to said Superintendent.

3. The Borrower's Executive Branch shall have submitted to the Borrower's Congress a proposed law for the modification of the laws currently governing FOGADE as presented by the Borrower under the Program, satisfactory to the Bank, aiming at: (a) defining clearly the role of FOGADE in the management of banking crises; (b) strengthening the mechanisms available to FOGADE for the resolution of said crises; (c) strengthening FOGADE's financial position; (d) enabling FOGADE to manage its own funds; and (e) enabling FOGADE, through changes in its accounting and financial statements preparation methods, to reveal accurately its operations and financial condition.

4. The Borrower's Executive Branch shall have submitted to the Borrower's Congress a proposal for modification of the Central Bank Law as presented by the Borrower under the Program, satisfactory to the Bank, which: (a) shall grant to Central Bank the power to

regulate interest rates charged and paid by all financial intermediaries, including savings and loans and development funds; (b) shall eliminate the Central Bank's obligation to exercise the power referred to in (a) above, thus allowing Central Bank to let interest rates to be determined by the market; (c) shall allow Central Bank to purchase Treasury bills, subject to the credit limit referred to in (d) below, provided that any such purchase should take place after an auction, on a residual basis and at the average price of such auction; (d) shall enable Central Bank to include, as part of the overall limit of credit from Central Bank to the Borrower that will be maintained at its current level, the nominal value of Central Bank holdings of, or rights to the, Borrower's debt (including, but not limited to, holdings or rights originated in Borrower's debt-equity swaps or in the Borrower's debt denominated in foreign currency with the exception, on a transitory basis, of holdings or rights originated in ongoing reduction or restructuring of external public debt); (e) shall allow Central Bank to enter into discounting, rediscounting, advancing or repurchase contractual (or otherwise evidenced) arrangements with SBIF Institutions, to the extent said transactions are limited to a 30-day maximum duration; and (f) shall eliminate the current obligation of Central Bank of limiting its purchases of Treasury bills to those redeemable within the execution period corresponding to the Fiscal Year in which such bills are purchased.

5. Central Bank shall have, in respect of each of the commercial banks it owns, completed the valuation of such bank's net worth and made available to prospective purchasers the bidding or tender documents for the sale thereof, all to the satisfaction of the Borrower and the Bank.

6. A program shall have been submitted to the Bank, whereby Central Bank will disengage, on terms presented by the Borrower under the Program and satisfactory to the Bank, all portfolios which, as of March 15, 1990, were held in trust by Central Bank, with the exception of Fideicomiso Cambiario.

7. The Borrower's Executive Branch shall have submitted to the Borrower's Congress one or more proposed laws as presented by the Borrower under the Program, on terms and conditions satisfactory to the Bank, for the creation of: (a) a second-tier agricultural credit institution which would absorb all assets and liabilities of, among other agricultural funds, the Fondo de Credito Agropecuario, of the Fondo del Cafe and of the Fondo Fruticola and (b) a second-tier industrial credit institution which would absorb the assets and liabilities of, among other industrial funds, each of Fondo de Credito Industrial and Fondo de Industria y Tecnologia and of the second-tier intermediation operations of FIV.

8. The Borrower's Executive Branch shall have submitted to the Borrower's Congress one or more proposed laws as presented by the Borrower under the Program, on terms and conditions satisfactory to the Bank, providing for modifications to Ley de Credito so as to (a) permit (i) issuance by the Borrower's Treasury of fixed term negotiable short-term Treasury bills not mandatorily redeemable within the execution period corresponding to the Fiscal Year in which such bills were issued and (ii) market determination of the price of said bills, and to (b) prevent the maintenance or establishment of any system or mandatory ranking of purchasers requiring, or leading to, the preferential placement of Treasury bills issued in accordance with (a) above amongst one or more pre-determined types of agents or purchasers.

9. The Borrower shall have commissioned services, including, if so required, the services of consultants, or shall have caused said services to be commissioned, for purposes of completing, under terms of reference satisfactory to the Borrower, Central Bank and the Bank, a plan of prompt action for the financial recovery, staff rationalization, administrative reorganization or restructuring of BIV and the four regional banks owned by BIV. Such plan shall contain a schedule for the resumption of BIV's lending activities.

Part B:

1. The Borrower shall have submitted to the Bank a program satisfactory to the Bank for the capitalization of FOGADE, with contributions therefor starting not later than January 1991.
 2. The Borrower shall have made contributions to FOGADE under the program referred to in 1 above, which shall cover not less than 50% of FOGADE's losses.
 3. The Borrower's Executive Branch shall have submitted to the Borrower's Congress a proposed law as presented by the Borrower under the Program, satisfactory to the Bank, modifying the Borrower's Banking Law so as to: (a) indicate the procedures and the role of the various Borrower's agencies and administrative sub-divisions, involved in solving banking crises; (b) increase minimum capital requirements for entry into the system of a new SBIF Institution which will supply commercial or mortgage banking services, to not less than the equivalent of \$6,000,000; (c) allow universal banking and introduce procedures to facilitate mergers and consolidations; (d) set as 1 to 20 the minimum permissible ratio between equity and total assets for commercial banks, mortgage banks and finance companies, while allowing the future introduction of a risk-weighted system for the computation of the asset base (including some contingencies); (e) allow (i) up to 20% foreign ownership of commercial banks, upon enactment of the revised law, and up to 30% in the future with prior authorization of the Borrower's Executive Branch and (ii) Executive Branch authorization as the sole step required to enable foreigners to acquire up to 100% of any financial intermediary operating in Venezuela other than a commercial bank subject to the prior issuance of general operative criteria therefor; and (f) to eliminate the possibility of computing the value of Treasury bills held by a bank as part of its reserve requirements.
 4. The Borrower, including all of the Borrower's agencies, shall have taken all such measures as shall be necessary to ensure that Central Bank and each other agency of the Borrower which directly or indirectly owned or controlled, as of April 30, 1990, an equitable interest in any of the banks referred to in paragraph 5 of Part A of this Schedule shall have divested of such interest by selling it to private purchasers or by otherwise disposing of such interest in form and substance satisfactory to the Borrower and the Bank.
 5. The Borrower shall have taken all such action as shall be necessary in respect of the Plans in accordance with the time-table therefor; for purposes of this Part B.5, "Plans" means (A) the strategic plan indicating the role of CORPOINDUSTRIA and ICAP as first-tier credit institutions, (B) the action plan for their restructuring, (C) both satisfactory to the Bank and (D) to be submitted to the Bank as part of the evidence to be furnished to the Bank pursuant to the provisions of paragraph 5 (a) of Schedule 1 to this Agreement before proceeds of the Loan allocated to Category 2 of the table in paragraph 1 of such Schedule shall have been withdrawn.
 6. Central Bank and FOGADE shall have taken all the action required on their part to disengage FOGADE's portfolio from Central Bank's trusteeship and to enable FOGADE to exercise an effective control of decisions on the management thereof, or to obtain an equivalent result.
 7. The Borrower shall have issued a Decree reducing agricultural lending requirement on commercial banks to 12% of each bank's total portfolio.
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