
LOAN NUMBER 2385 GU

Loan Agreement

(Third Telecommunications Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

EMPRESA GUATEMALTECA DE TELECOMUNICACIONES

Dated *May 24*, 1984

LOAN AGREEMENT

AGREEMENT, dated *May 24*, 1984, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and EMPRESA GUATEMALTECA DE TELECOMUNICACIONES (hereinafter called the Borrower).

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated October 27, 1980, with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, 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) "First and Second Loan Agreements" means the loan agreements between the Bank and the Borrower dated, respectively, January 5, 1972 and April 29, 1975;

(b) "First and Second Guarantee Agreements" means the Guarantee Agreements between the Guarantor and the Bank dated, respectively, January 5, 1972 and April 29, 1975;

(c) "Fiscal Year" means the Borrower's fiscal year which coincides with the calendar year;

(d) "Ley Orgánica" means Ley Orgánica de la Empresa Guatemalteca de Telecomunicaciones, enacted by Decree No. 14-71 of the Guarantor's Congress, published in the official gazette of April 13, 1971;

(e) "Quetzal(es)" and "Q" mean the currency of the Guarantor; and

(f) "Investment Program" means the investment program of the Borrower, for the years 1984-1987, as set forth in a letter of even date herewith from the Borrower to the Bank.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to herein, an amount in various currencies equivalent to thirty million dollars (\$30,000,000).

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 The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank, 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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

Section 2.03. Except as the Bank shall otherwise agree, procurement of the goods required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 2.04. The Closing Date shall be June 30, 1988 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.05. (a) The Borrower shall pay to the Bank a fee equivalent to four hundred forty-three thousand three hundred fifty dollars (\$443,350).

(b) On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee in the currency or currencies as the Bank shall determine.

Section 2.06. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.07. (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 percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.08 of this Agreement, including the Interest Period in which this Agreement is signed;
- (ii) "Cost" of Qualified Borrowings means the cost, expressed as a percentage per annum, as reasonably determined by the Bank, provided that the amount of \$8,520.5 million referred to in (iii) (B) hereunder shall be reckoned at a cost of 10.93% per annum;
- (iii) "Qualified Borrowings" means: (A) outstanding borrowings of the Bank drawn down after June 30, 1982; and (B) until July 1, 1985, the amount of \$8,520.5 million (representing borrowings of the Bank between July 1, 1981 and June 30, 1982) less any part thereof repaid earlier than July 1, 1985; and
- (iv) "Semester" means the first six months or the second six months of a calendar year.

(c) 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.

Section 2.08. Interest and other charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.09. 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

Section 3.01. The Borrower shall carry out the Project with due diligence and efficiency and in conformity with appropriate

administrative, financial, engineering and telecommunications practices.

Section 3.02. In order to assist the Borrower in carrying out Parts E and F 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 to 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.

Section 3.03. (a) The Borrower undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation and, for such insurance, any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

(b) The Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for the purposes of the Project.

Section 3.04. (a) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans, specifications, contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Bank shall reasonably request.

(b) The Borrower shall: (i) maintain records and procedures adequate to record and monitor the progress of the Project (including its cost and the benefits to be derived from it), to identify the goods and services financed out of the proceeds of the Loan, and to disclose their use in the Project; (ii) enable the Bank's representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents; and (iii) furnish to the Bank, at regular intervals, all such information as the Bank shall reasonably request concerning the Project, its cost and, where appropriate, the benefits to be derived from it, the expenditure of the proceeds of the Loan and the goods and services financed out of the proceeds.

(c) Upon the award by the Borrower of any contract for goods, works or services to be financed out of the proceeds of the Loan, the Bank may publish a description thereof, the name and nationality of the party to whom the contract was awarded and the contract price.

(d) The Borrower shall enable the Bank's representatives to examine all plants, installations, sites, works, buildings, property and equipment of the Borrower and any relevant records and documents.

(e) Promptly after completion of the Project but, in any event, 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 and initial operation of the Project, its cost and the benefits derived and to be derived from it, 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.

Section 3.05. The Borrower shall:

(a) not later than June 30, 1984, carry out the study included in Part F of the Project under terms of reference that shall have been approved by the Bank; and

(b) not later than September 30, 1984, prepare and furnish to the Bank a plan of action satisfactory to the Bank, for the carrying out of the recommendations of the study included in Part F of the Project, including, if such is the case, any reasonable modifications thereto requested by the Bank.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and

from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practices.

Section 4.04. (a) The Borrower shall take all steps necessary to acquire, maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

(b) Unless the Bank shall otherwise agree, the Borrower shall not sell, lease, transfer or otherwise dispose of any of its property or assets which shall be required for the efficient operation of its business and undertaking, including the Project.

(c) The Borrower shall not create, acquire a proprietary interest in or takeover any company if such creation, acquisition or takeover would adversely and substantially affect its financial condition or the efficiency of the Borrower's management and personnel.

ARTICLE V

Financial and Other Covenants

Section 5.01. The Borrower shall maintain records adequate to reflect, in accordance with consistently maintained appropriate accounting practices, its operations and financial condition.

Section 5.02. The Borrower shall: (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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 copies of its 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 accounts and financial statements of the Borrower

and the audit thereof as the Bank shall from time to time reasonably request.

Section 5.03. (a) The Borrower represents that, at the date of this Agreement, no lien exists on any of its assets as security for any debt.

(b) The Borrower undertakes that, except as the Bank shall otherwise agree: (i) if the Borrower shall create any lien on any of its assets as security for any debt, such lien will equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan, and in the creation of any such lien express provision will be made to that effect, at no cost to the Bank; and (ii) if any statutory lien shall be created on any assets of the Borrower as security for any debt, the Borrower shall grant, at no cost to the Bank, an equivalent lien satisfactory to the Bank to secure the payment of the principal of, and interest and other charges on, the Loan, provided, however, that the foregoing provisions of this paragraph shall not apply to: (A) any lien created on property at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (B) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after the date on which it is originally incurred.

Section 5.04. (a) Except as the Bank shall otherwise agree, the Borrower shall not undertake capital expenditures in addition to the Borrower's Investment Program for any major expansion before the Closing Date, unless a financing plan therefor has been approved by the Bank.

(b) For purposes of paragraph (a) above, the term "major expansion" means a project or projects for which the aggregate expenditures are expected to exceed, in any one year, three million Quetzales (Q 3,000,000).

Section 5.05. (a) Except as the Bank shall otherwise agree and until the Project has been completed:

(i) the Borrower, from time to time, shall take or cause to be taken all such measures (including, without limitation, adjustments of the structure or levels of its telecommunications tariffs) as shall be required to produce an annual return of not less than twelve percent (12%) for Fiscal Year

1984 and not less than thirteen percent (13%) for Fiscal Year 1985 and thereafter on the average current net value of the Borrower's fixed assets in operation;

- (ii) before November 30 in each Fiscal Year, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review the adequacy of its tariffs to produce the annual return required under subparagraph (i) above in respect of such year and the next following Fiscal Year and shall furnish to the Bank the results of such review upon its completion; and
 - (iii) if any such review shall show that the Borrower would not earn the annual return required under subparagraph (i) above in the course of the Fiscal Years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet the requirements set forth in subparagraph (i) above.
- (b) For the purposes of this Section:
- (i) the annual return shall be calculated by dividing the Borrower's net operating income for the Fiscal Year in question by one-half of the sum of the current net value of the Borrower's fixed assets in operation at the beginning and at the end of that Fiscal Year;
 - (ii) the term "net operating income" means gross revenues from all sources related to the Borrower's telecommunications operations less all expenses related to the Borrower's telecommunications operations, including administration, adequate maintenance, taxes or any payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than five percent (5%) per annum of the average current gross value of the Borrower's fixed assets in operation. Interest and other charges on debt shall not be deducted from gross revenues;
 - (iii) the term "current net value of the Borrower's fixed assets in operation" means the gross value of the Borrower's fixed assets in question less

the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank; and

- (iv) any shortfall or overrun in an annual return, earned over the next preceding Fiscal Year as measured against the requirement specified for such year by paragraph (a) (i), shall be carried forward and shall be, respectively, subtracted from or added to the net operating income for the Fiscal Year in respect of which the calculation is made.

Section 5.06. The Borrower shall maintain its current accrual-basis accounting system.

Section 5.07. Prior to awarding the respective contract, the Borrower shall furnish to the Bank, for comment, the bidding documents, bids and other documentation related to the acquisition of the switching equipment package required for the installation of about 97,200 lines of local exchange, out of the 109,600 lines included in Part A (i) of the Project and of the long distance exchange included in Part A (iii) of the Project, and not to be financed out of the proceeds of the Loan.

ARTICLE VI

Amendment to the First and Second Loan Agreements

Section 6.01. The First and Second Loan Agreements are hereby amended by substituting the text of:

(a) Section 5.04 of this Agreement for Section 5.05 of the First Loan Agreement and for Section 5.04 of the Second Loan Agreement; and

(b) Section 5.05 of this Agreement for Section 5.07 of the First Loan Agreement and for Section 5.06 of the Second Loan Agreement.

ARTICLE VII

Remedies of the Bank

Section 7.01. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified pursuant to paragraph (k) thereof:

(a) The Ley Organica shall have been modified so as to affect adversely and substantially the conduct of the Borrower's operations or financial condition or the performance of its obligations under this Agreement.

(b) Section 23 of the Ley Organica shall have been modified.

(c) (i) The right of the Borrower to withdraw the proceeds of any loan made to the Borrower for the financing of the Project shall have been suspended or cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(ii) Any such loan shall have become due and payable prior to the agreed maturity thereof.

(iii) Subparagraphs (i) and (ii) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 7.02. For the purposes of Section 7.01 of the General Conditions, the following events are specified pursuant to paragraph (h) thereof:

(a) any event specified in paragraph (a) or (b) of Section 7.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the event specified in paragraph (c) (ii) of Section 7.01 of this Agreement shall occur, subject to the proviso of subparagraph (iii) of that paragraph.

ARTICLE VIII

Termination

Section 8.01. The date, *July 23*, 1984, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE IX

Addresses

Section 9.01. 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:

Empresa Guatemalteca de
Telecomunicaciones
7a. Avenida, 12-39, Zona 1
Guatemala City
Guatemala, C.A.

Cable address:


GUATEL
Guatemala

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, 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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By


Acting Regional Vice President
Latin America and the Caribbean

EMPRESA GUATEMALTECA DE TELECOMUNICACIONES

By


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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Local exchange equipment	500,000	100% of foreign expenditures
(2) Cables, coin box telephones and power plant	15,700,000	100% of foreign expenditures
(3) Long distance transmission equipment	4,600,000	100% of foreign expenditures
(4) Computer system	3,000,000	100% of foreign expenditures
(5) Consultants	1,000,000	100% of foreign expenditures
(6) Fee	443,350	Amount due under Section 2.05 of this Agreement
(7) Unallocated	4,756,650	
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TOTAL	30,000,000	
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2. For the purposes of this Schedule, the term "foreign expenditures" means expenditures in the currency of any country other than the Guarantor and for goods or services supplied from the territory of any country other than the Guarantor.

3. The disbursement percentages have been calculated in compliance with the policy of the Bank that no proceeds of the Loan

shall be disbursed on account of payments for taxes levied by, or in the territory of, the Guarantor on goods or services, or on the importation, manufacture, procurement or supply thereof; to that end, if the amount of any such taxes levied on or in respect of any item to be financed out of the proceeds of the Loan decreases or increases, the Bank may, by notice to the Borrower, increase or decrease the disbursement percentage then applicable to such item as required to be consistent with the aforementioned policy of the Bank.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not to exceed the equivalent of \$350,000 may be made in respect of Categories (1) and (5) of the table set forth in paragraph 1 of this Schedule, on account of payments made for such expenditures before that date but after January 1, 1984.

5. Notwithstanding the allocation of an amount of the Loan or the disbursement percentages set forth in the table in paragraph 1 above, if the Bank has reasonably estimated that the amount of the Loan then allocated to any Category will be insufficient to finance the agreed percentage of all expenditures in that Category, the Bank may, by notice to the Borrower: (i) reallocate to such Category, to the extent required to meet the estimated shortfall, proceeds of the Loan which are then allocated to another Category and which in the opinion of the Bank are not needed to meet other expenditures; and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the disbursement percentage then applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

6. If the Bank shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in this Agreement, no expenditures for such item shall be financed out of the proceeds of the Loan and the Bank may, without in any way restricting or limiting any other right, power or remedy of the Bank under the Loan Agreement, by notice to the Borrower, cancel such amount of the Loan as, in the Bank's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Loan.

SCHEDULE 2

Description of the Project

The Project is part of the Borrower's Telecommunications Development Plan (1984-1987) for modernization and expansion of its telecommunications services and consists of the following Parts:

Part A:

The acquisition and installation of:

(i) about 109,600 additional lines of local exchange equipment, with associated cables, in order to provide about 100,000 additional connections and to provide about 3,500 additional public call office telephones;

(ii) 11 microwave and 7 UHF/VHF systems with about 400 additional long distance circuits;

(iii) a national long distance exchange in Guatemala City;

(iv) a computer for data-processing services of the Borrower; and

(v) training equipment.

Part B

The construction of buildings to house telecommunication equipment to be purchased under the Project.

Part C

The extension of the rural services rendered by the Borrower through:

(i) the acquisition and installation of about 8,000 exchange lines; and

(ii) the provision of primary telecommunications facilities to rural communities currently without such services.

Part D:

(i) The extension of the Central American international network by way of a microwave system and/or a submarine cable.

(ii) The provision of a new international exchange in Guatemala City.

Part E

Strengthening of the Borrower's capabilities in administration, planning, finance and management.

Part F

Carrying out a study on the level and structure of the Borrower's telephone tariffs.

* * *

The Project is expected to be completed by December 31, 1987.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)*</u>
On each May 15 and November 15	
beginning November 15, 1989 through May 15, 1999	1,500,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal; see General Conditions, Section 3.04.

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.04 (b) of the General Conditions:

<u>Time of Prepayment</u>	<u>Premium</u>
	The interest rate (expressed as a per- centage per annum) applicable to the balance outstanding on the Loan on the day of the prepay- ment 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

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 the current edition of the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in March 1977 (hereinafter called the Guidelines), on the basis of international competitive bidding as described in Part A of the Guidelines.

2. For goods to be procured on the basis of international competitive bidding, and in addition to the requirements of paragraph 1.2 of the Guidelines, the Borrower shall prepare and forward to the Bank as soon as possible, and in any event not later than 60 days prior to the date of availability to the public of the first tender or prequalification documents relating thereto, as the case may be, a general procurement notice, in such form and detail and containing such information as the Bank shall reasonably request; the Bank will arrange for the publication of such notice in order to provide timely notification to prospective bidders of the opportunity to bid for the goods in question. The Borrower shall provide the necessary information to update such notice annually so long as any goods remain to be procured on the basis of international competitive bidding.

3. For the purpose of evaluation and comparison of bids for the supply of goods to be procured on the basis of international competitive bidding: (i) bidders shall be required to state in their bid the c.i.f. (port of entry) price for the imported goods, or the ex-factory price or off-the-shelf price of other goods offered in such bid; (ii) customs duties and other import taxes levied in connection with the importation, or the sales and similar taxes levied in connection with the sale or delivery, pursuant to the bid, of the goods shall not be taken into account in the evaluation of the bids; and (iii) the cost of inland freight and other expenditures incidental to the delivery of the goods to the place of their use or installation shall be included.

B. Evaluation and Comparison of Bids for Goods; Preference for Manufacturers Established in the Territories of the Central American Common Market:

1. For the purpose of evaluation and comparison of bids for the supply of cables:

(a) bidders shall be required to state in their bid the c.i.f. (port of entry) price for imported goods, or, in the case of a Central American Bid, the ex-factory price for domestically-manufactured goods;

(b) customs duties and other import taxes on imported goods, and sales and similar taxes on domestically-supplied goods, shall be excluded, except to the extent specified under 2 (c) (ii) below; and

(c) the cost to the Borrower of insurance, inland freight, and other expenditures incidental to the delivery of goods to the place of their use or installation shall be included.

2. Bids shall be compared in accordance with the following rules:

(a) the term "Central American Bid" means a bid submitted by a manufacturer established in the territories of member countries of the Central American Common Market for goods manufactured or processed to a substantial extent (as reasonably determined by the Bank) in such territories; any other bid shall be deemed to be a "Non-Central American Bid";

(b) the bid price under a Central American Bid shall be the sum of the following amounts:

(i) the ex-factory price of such goods; and

(ii) freight, insurance and other costs of delivery of such goods to the site designated in the specifications; and

(c) for the purpose of comparing any Non-Central American Bid with any Central American Bid, the price under a Non-Central American Bid shall be the sum of the following amounts:

- (i) the c.i.f. (port of entry) price of such goods;
- (ii) half the amount of any taxes on the importation of such goods into the territories of the Borrower which generally apply to non-exempt importers, or 15% of the amounts specified in (i) above, whichever shall be the lower; and
- (iii) freight, insurance and other costs of delivery of such goods from the port of entry to the site designated in the specifications.

C. Other Procurement Procedures

Contracts for the acquisition of switching equipment for the extension lines shall be procured through negotiated purchases from established and reliable suppliers; provided, however, that: (a) any draft contract and any other document relevant thereto which the Bank may request shall be submitted to the Bank for approval prior to making any award of contract or issuing any letter of intent; and (b) the purchase price of all equipment so procured shall not exceed, in the aggregate, the equivalent of \$500,000.

D. Review of Procurement Decisions by the Bank:

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

With respect to all contracts for goods estimated to cost the equivalent of \$1,000,000 or more:

(a) before bids are invited, the Borrower shall furnish to the Bank, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Bank shall reasonably request. Any further modification to the bidding documents shall require the Bank's concurrence before it is issued to the prospective bidders;

(b) after bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Bank of the name of the bidder to which it intends to

award the contract and shall furnish to the Bank, in sufficient time for its review, a detailed report on the evaluation and comparison of the bids received, and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the intended award would be inconsistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination;

(c) the terms and conditions of the contract shall not, without the Bank's concurrence, materially differ from those on which bids were asked or prequalification was invited; and

(d) two conformed copies of the contract shall be furnished to the Bank promptly after its execution and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract.

2. With respect to each contract not governed by the preceding paragraph, the Borrower shall furnish to the Bank, promptly after its execution and 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, recommendations for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

3. Before agreeing to any material modification or waiver of the terms and conditions of a contract, or granting an extension of the stipulated time for performance of such contract, or issuing any change order under such contract (except in cases of extreme urgency) which would increase the cost of the contract by more than 10% of the original price, the Borrower shall inform the Bank of the proposed modification, waiver, extension or change order and the reasons therefor. The Bank, if it determines that the proposal would be inconsistent with the provisions of this Agreement, shall promptly inform the Borrower and state the reasons for its determination.