
LOAN NUMBER 4225-GU

Loan Agreement

(Tax Administration Technical Assistance Loan)

between

REPUBLIC OF GUATEMALA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *September 11*, 1998

LOAN NUMBER 4225-GU

LOAN AGREEMENT

AGREEMENT, dated *September 11* 1998, between REPUBLIC OF GUATEMALA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself 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;

(B) by agreement dated January 6, 1997 (the USAID Grant Agreement) the United States Agency for International Development (the USAID) has agreed to make a grant (the USAID Grant) to the Borrower in an aggregate amount of \$25,000,000 of which \$1,500,000 will be used to assist in financing part of the Project on the terms and conditions set forth in the USAID Grant Agreement;

(C) by agreement dated September 30, 1996 (the IDB Loan Agreement), the Inter-American Development Bank (the IDB) has agreed to make a loan (the IDB Loan) to the Borrower in an aggregate amount equivalent to \$1,400,000 to assist in financing part of the Project on the terms and conditions set forth in the IDB Loan 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 for Single Currency Loans" of the Bank, dated May 30, 1995 with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

Section 6.03 is modified to read:

“Section 6.03. **Cancellation by the Bank.** If: (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days; or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project’s costs to be financed out of the proceeds of the Loan; or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan; or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan; or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account; or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, 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.”

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) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank setting forth: (i) the Project’s performance indicators and targets; (ii) the objectives, principles and characteristics of the legal framework referred to in Section 6.01 (a) of this Agreement; (iii) the positions to be filled in by the PCU; (iv) the scope of the mid-term review referred to in Section 3.08 (b) of this Agreement; and (v) the criteria for the selection of the procedures referred to in Part B.2 (b) of the Project, as such letter may be amended from time to time with the agreement of the Bank;

(b) "PCU" means the Project coordinating unit referred to in Section 3.04 of this Agreement;

(c) "SAT" means the Superintendency of Tax Administration (*Superintendencia de Administración Tributaria*) of the Borrower to be established pursuant to Section 6.01 (a) of this Agreement;

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

(e) "Subsidiary Agreement" means the agreement referred to in Section 3.01 (b) of this Agreement; and

(f) "Unified Taxpayer Registry" means the Borrower's registry of taxpayers (*Registro Tributario Unificado*).

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 equal to twenty eight million two hundred thousand Dollars (\$28,200,000).

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in its central bank 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 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2002 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. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears 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 provisions of Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) 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 cause the SAT pursuant to the provisions of the Subsidiary Agreement to carry out the Project with due diligence and efficiency and in conformity with appropriate financial, management, administrative and taxation practices, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the SAT to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by the SAT.

(b) The Borrower shall make the proceeds of the Loan available to the SAT under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and the SAT, under terms and conditions satisfactory to the Bank which shall include, inter alia, the SAT's obligation to carry out the Project in accordance with the provisions of this Agreement.

(c) The Borrower shall exercise its rights and comply with its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce the Subsidiary Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services 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 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall cause the SAT to:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank 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, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. (a) The Borrower shall cause the SAT to establish within the SAT, and thereafter operate and maintain during the implementation of the Project a Project coordination unit (the PCU) with functions and responsibilities satisfactory to the Bank, including, inter alia, the responsibility to coordinate, monitor and supervise the implementation of the Project.

(b) The Borrower shall cause the SAT to ensure that the PCU is at all times headed by a Project director and assisted by staff in adequate numbers, all with qualifications and experience satisfactory to the Bank.

Section 3.05. The Borrower shall cause the SAT to maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators and targets set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objectives thereof.

Section 3.06. Without limitation to the provisions of Section 9.07 of the General Conditions, the Borrower shall cause the SAT to not later than thirty days after the conclusion of each calendar semester during the implementation of the Project, starting in 1998, prepare and furnish to the Bank a report of such scope and in such detail as the Bank shall reasonably request with respect to the progress made by the SAT in the carrying out of the Project during the calendar semester preceding the date of presentation of such report.

Section 3.07. The Borrower shall cause the SAT to: (a) not later than December 31 of each year of Project implementation prepare and furnish to the Bank a plan (including a timetable), satisfactory to the Bank, with respect to the activities to be

carried out under the Project during the calendar year following the date of presentation of such plan; and (b) thereafter carry out such plan in accordance with its terms.

Section 3.08. (a) Without limitation to the provisions of Section 9.01 of the General Conditions, the Borrower shall cause the SAT to not later than March 31 of each year of Project implementation, starting in 1999, review jointly with the Bank the progress made by the SAT in: (i) carrying out the Project; and (ii) achieving the objectives of the Project, based on the indicators and the corresponding reports referred to in Sections 3.05 and 3.06 of this Agreement, respectively. As part of each such review the Bank may require the SAT to prepare an action plan, satisfactory to the Bank, to make adjustments in Project implementation. In such event, the SAT shall not later than forty five days after the conclusion of each such review furnish such action plan to the Bank and shall thereafter carry out, or cause to be carried out, such action plan in accordance with its terms.

(b) As part of the annual review to be held not later than March 31, 2000, the Borrower shall cause the SAT to jointly carry out with the Bank a Project implementation mid-term review of such scope as set forth in the Implementation Letter.

Section 3.09. (a) The Borrower shall cause the SAT to, at the request of the Bank, exchange views with the Bank with respect to the progress in the carrying out of the Project, the performance of its obligations under the Subsidiary Agreement, and other matters related to the purposes of the Loan.

(b) The Borrower shall cause the SAT to promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan for the Project, or the performance of the SAT of its obligations under the Subsidiary Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the SAT to maintain records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project.

- (b) The Borrower shall cause the SAT to:
- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account 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, 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 cause the SAT to:

- (i) maintain 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 audit 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.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) That the legal framework referred to in Section 6.01 (a) of this Agreement or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect, in the opinion of the Bank, the ability of the SAT to carry out the Project.

(b) That the regulations referred to in Section 6.01 (d) of this Agreement or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect, in the opinion of the Bank, the ability of the SAT to carry out the Project.

(c) That the IDB Loan Agreement shall have failed to become effective by December 31, 1997, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(d) That the SAT shall have failed to perform any of its obligations under the Subsidiary Agreement.

(e) That the Borrower or any authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the SAT, or for the suspension of its operations.

(f) That as a result of events which have occurred after the creation of the SAT, a situation shall have arisen which shall make it improbable that the SAT will be able to perform its obligations under the Subsidiary Agreement.

(g) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan (including the IDB Loan and the USAID Grant) made to the Borrower for the financing

of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) 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 any such agreement; and
 - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) That the events specified in paragraphs (a) or (b) or (e) of Section 5.01 of this Agreement shall occur.

(b) That the event specified in paragraph (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after the notice thereof shall have been given by the Bank to the Borrower.

(c) That the event specified in paragraph (g) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (g) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 a legal framework has been established (substantially in accordance with the objectives, principles and characteristics described in an annex to the Implementation Letter) for the operation of the SAT.

(b) That the PCU has: (i) been established as provided in Section 3.04 (a) of this Agreement; and (ii) employed the Project director and the personnel for the positions listed in an annex to the Implementation Letter.

(c) That the SAT has furnished to the Bank the plan for 1998 referred to in Section 3.07 of this Agreement.

(d) That the regulations for the legal framework mentioned in paragraph (a) of this Section have been issued.

(e) That the Subsidiary Agreement has been executed by the parties thereto.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) That the legal framework referred to in Section 6.01 (a) of this Agreement is in full force and effect.

(b) That the regulations referred to in Section 6.01 (d) of this Agreement are in full force and effect.

(c) That the Subsidiary Agreement has been duly authorized or ratified by the Borrower and the SAT, and is legally binding upon the Borrower and the SAT in accordance with its terms.

Section 6.03. The date *December 16, 1992* 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 Minister of Finance 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 Borrower:

Ministerio de Finanzas Públicas
8a Avenida y 21 Calle
Centro Cívico
Zona 1, Guatemala

Cable address:

Telex:

MINFIP
Guatemala, Guatemala

9207 MINFIP GU

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:

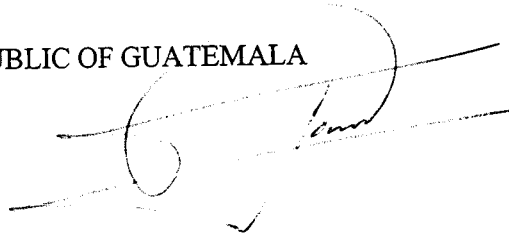
INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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.

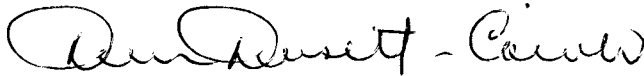
REPUBLIC OF GUATEMALA

By



Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT



By

Acting 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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	7,500,000	100% of foreign expenditures and 90% of local expenditures
(2) Consultants' services		
(a) under the Project other than under Part E.2 of the Project	16,900,000	100%
(b) under Part E.2 of the Project	100,000	100%
(3) Training	600,000	100%
(4) Operating Costs	900,000	100% until withdrawals under this Category have reached an aggregate amount of \$225,000; 85% until withdrawals under this Category have reached an aggregate amount of \$550,000 and 55 % thereafter

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(5) Unallocated	<u>2,200,000</u>	
TOTAL	<u>28,200,000</u>	

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 Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "Training" means expenditures (other than for consultants' services) incurred by the SAT in the carrying out of the training activities under the Project, including the travel and per-diem cost of the trainees; and

(d) the term "Operating Costs" means the expenditures incurred by the PCU which are necessary to carry out its functions and responsibilities, including office furniture, office supply, office rent and the salaries of the support staff.

3. 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 exceeding the equivalent of \$2,820,000, may be made in respect of Categories (1), (2) and (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but within twelve months of the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods costing less than \$150,000 equivalent with the exception of the first two contracts for goods to be awarded under Part C.1 (a) of Section I of Schedule 4 to this Agreement; (b) contracts for the employment of consulting firms costing less than \$100,000 equivalent; (c) contracts for the employment of individual consultants costing less than \$50,000 equivalent; and

(d) Training and Operating Costs as set forth in Categories (3) and (4) of the table in paragraph 1 of this Schedule, respectively, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) improve the effectiveness and efficiency of the Borrower's tax and customs administration through the strengthening of the collection and auditing procedures and procedures for the enforcement of tax laws and regulations; and (b) increase tax revenues.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Superintendency of Tax Administration

Strengthening of the institutional, operational, legal and financial capacity of the SAT, through the provision of technical assistance and training and the acquisition and utilization of goods required therefor.

Part B: Taxpayer Compliance

1. Improvement of the information technology systems related to tax collection and filing of tax forms.
2. Improvement of: (a) the procedures for: (i) imports declaration (*sistema de auto-declaración de importaciones*); (ii) transit and warehousing of imports; (iii) monitoring of exports; (iv) tax appeals; and (v) collecting taxes through the banking system; and (b) any other procedure related to the administration of taxes to be selected by the SAT in accordance with the criteria set forth in the Implementation Letter.
3. Carrying out of a revision of the Unified Taxpayer Registry to broaden its scope and improve its efficiency.
4. Design and operation of a special taxpayer unit to: (a) assist the SAT in the collection of taxes; and (b) provide information and advice to taxpayers with respect to their tax obligations.

5. Development of a national program for the creation of customer service units to, inter alia, disseminate tax information to the public and provide tax assistance to the taxpayers.

6. Carrying out of surveys to assess the efficiency and effectiveness of the program mentioned in Part B.5 above.

Part C: Enforcement Mechanisms

1. Carrying out of a review of the legal and regulatory framework applicable to tax administration in order to improve, if needed, the procedures related to: (a) tax collection, investigation and auditing; and (b) the application of sanctions to tax evaders.

2. Strengthening of the tax auditing department of the SAT, through: (a) the design and implementation of: (i) an audit information system; (ii) procedures for, inter alia: (A) the selection, programming and execution of taxpayer audits; and (B) supervising and monitoring of taxpayer audits; and (iii) a training program for the benefit of the personnel mentioned in (b) herein; (b) the hiring of qualified personnel to carry out tax audits for the SAT; and (c) the acquisition and utilization of goods required therefor.

Part D: Social Communications

1. Carrying out of a national campaign (consisting, inter alia, of seminars, workshops and media campaigns) to inform the public with respect to, inter alia: (a) the establishment and functioning of the SAT; (b) the changes introduced or to be introduced in the tax laws and their regulations; (c) the rights and obligations of the taxpayers; and (d) the improved systems and procedures for tax compliance referred to in Parts B.1 and B.2 above, including the design, printing and distribution of materials required therefor.

2. Carrying out of national surveys to assess the public's understanding and awareness of the existing legal and regulatory framework applicable to taxation.

3. Design and implementation of a program to educate students attending primary, secondary and tertiary schools with respect to the rights and obligations of taxpayers.

4. Provision of training to the personnel of the SAT concerning the structure and functions of the SAT.

Part E: Project Coordination

1. Strengthening of the PCU's functions through the provision of technical assistance and the acquisition and utilization of goods required therefor.
2. Strengthening of the SAT's capacity to carry out audits under the Project.

* * *

The Project is expected to be completed by September 30, 2001.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

- (i) Fixed Base Rate; plus
- (ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

- (i) one half of one percent (1/2 of 1%);
- (ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period;

as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in Dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

- (d) "Fixed Total Spread" means, for each Disbursed Amount:
- (i) one-half of one percent (1/2 of 1%);
 - (ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus
 - (iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount;

as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each March 15 and September 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-twelfth (1/12) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after March 15, 2013, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

- (a) Goods estimated to cost \$25,000 equivalent or more but less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000

equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of all goods under this Part C.1 shall be carried out using standard bidding documents acceptable to the Bank.

2. International or National Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract for goods to be awarded under Part B.1 of this Section; and (b) the first two contracts for goods to be awarded under Part C.1 (a) of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for the activities to be carried out under the Project estimated to cost the equivalent of \$100,000 or more but less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for the activities to be carried out under the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for the activities to be carried out under the Project up to an aggregate amount not to exceed \$3,500,000 equivalent, may be procured under contracts awarded

to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of less than \$50,000, the terms of reference of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project 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; and
 - (c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 in respect of the Special Account for the Project to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,000,000.
2. 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 shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid 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 said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

- (a) if, at any time, 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;

- (b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the Special Account for the Project, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of

the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for the Project 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 an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(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.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.