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CONFORMED COPY

LOAN NUMBER 1541 PO

Loan Agreement

(Lisbon Region Water Supply Project)

between

REPUBLIC OF PORTUGAL

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 6, 1978

Public Disclosure Authorized

Public Disclosure Authorized

LOAN AGREEMENT

AGREEMENT, dated June 6, 1978, between REPUBLIC OF PORTUGAL (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS (A) the Borrower has requested the Bank to assist in the financing of the Project described in Schedule 2 to this Agreement by making the Loan as hereinafter provided;

(B) Parts A and B of the Project will be carried out by Empresa Publica das Aguas de Lisboa (hereinafter called EPAL) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to EPAL a portion of the proceeds of the Loan as hereinafter provided; and

WHEREAS the Bank has agreed, on the basis inter alia of the foregoing, to make the Loan available to the Borrower upon the terms and conditions set forth hereinafter and in a project agreement of even date herewith between the Bank and EPAL;

NOW THEREFORE the parties hereto hereby agree as follows:

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 March 15, 1974, 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Project Agreement" means the agreement between the Bank and EPAL of even date herewith, as the same may be amended from time to time, and such term includes the schedule to the Project Agreement and all agreements supplemental to the Project Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and EPAL pursuant to Schedule 2 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(c) "Organic Laws of EPAL" means Decree No. 22-181 of February 11, 1933, as amended; Decree-Law No. 553-A/74 of October 29; and Decree-Law No. 260/76 of April 8; and

(d) "Other Financing Agreement(s)" means the financing agreement(s) described in Section 6.01 (c) of this Agreement and "Other Lender(s)" means the Lenders party to the Other Financing Agreement(s).

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to forty million dollars (\$40,000,000).

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 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 and civil works required for Parts A and B of the Project shall be governed by the provisions of Section 2.02 of the Project Agreement.

Section 2.04. The Closing Date shall be June 30, 1983 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. The Borrower shall pay interest at the rate of seven and forty-five hundredths per cent (7.45%) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semi-annually on May 1 and November 1 in each year.

Section 2.08. 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. (a) Without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause EPAL to perform in accordance with the provisions of the Project Agreement all the obligations therein set forth, shall take or cause to be taken all action (including without limitation the prompt and adequate provision of funds, facilities, services and other resources specified in Schedule 2 to this Agreement and approving any adjustments of EPAL's tariffs required to enable EPAL to comply with Section 4.04 of the Project Agreement) necessary or appropriate to enable EPAL to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall carry out Part C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and in accordance with the applicable provisions of Schedule 2 to this Agreement, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.02. The Borrower shall exercise its rights under the Subsidiary Loan 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 or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.03. The Borrower shall maintain records adequate to record (a) the progress of, and (b) in accordance with consistently maintained appropriate accounting practices, expenditures made on account of Part C of the Project.

Section 3.04. The Borrower shall furnish to the Bank, promptly upon their preparation, copies of the reports of consultants employed, related reports, reviews thereof and proposals produced in connection with Part B (2) of the Project and reports of the consultants employed for Part C of the Project, shall inform the Bank of any recommendations made by the Borrower or any of its agencies or political subdivisions on the basis of or in connection with any such report, review or proposal and shall afford the Bank a reasonable opportunity to comment on such recommendations before steps are taken that could lead to their definitive adoption or their implementation.

Section 3.05. No action shall be taken to expand the jurisdiction or geographic scope of operations of EPAL (whether arising out of proposals resulting from the studies included in Part B (2) of the Project or otherwise) except (i) with due regard to their technical and financial effects on EPAL and (ii) in a time frame that will ensure that such implementation will not adversely affect the execution of the Project.

Section 3.06. The Borrower shall ensure that before July 1, 1979 construction will start of facilities designed to treat adequately the waste waters produced in the town of Santarem or to discharge such waste waters into the Tagus river downstream from EPAL's water intake.

Section 3.07. The Borrower shall take all such action as is within its power to procure that EPAL is effectively and definitively charged with the exclusive responsibility for all water supply planning within EPAL's service area by December 31, 1978.

Section 3.08. The Borrower shall take all action necessary on its part, including the timely and adequate provision of funds, to ensure that the water distribution facilities to be constructed by the municipalities in the greater Lisbon region in order to achieve the full benefits of the Project shall be constructed in accordance with appropriate engineering and water supply practices and in a timely fashion. For the purposes of this Section, the term "greater Lisbon region" shall be defined as the areas which are, at the date of this Agreement, within the jurisdiction of the municipalities of Lisbon, Oeiras, Loures, Cascais, Sintra, Vila Franca de Xira, Mafra, Alcanena, Alenquer, Arruda dos Vinhos, Azambuja, Santarem, Sobral de Monte Agraco, Almada, Seixal, Barreiro, Moita, Montijo, Alcochete, Palmela, Sesimbra and Setubal.

ARTICLE IV

Other Covenants

Section 4.01. (a) It is the policy of the Bank, in making loans to, or with the guarantee of, its members not to seek, in normal circumstances, specific security from the member concerned but to ensure that no other external debt shall have priority over its loans in the allocation, realization or distribution of foreign exchange held under the control or for the benefit of such member. To that end, if any lien shall be created on any public assets (as hereinafter defined), as security for any external debt, which will or might result in a priority for the benefit of the creditor of such external debt in the allocation, realization or distribution of foreign exchange, such lien shall, unless the Bank shall otherwise agree, ipso facto and at no cost to the Bank, equally and ratably secure the principal of, and interest and other charges on, the Loan, and the Borrower, in creating or permitting the creation of such lien, shall make express provision to that effect; provided, however, that, if for any constitutional or other legal reason such provision cannot be made with respect to any lien created on assets of any of its political or administrative subdivisions, the Borrower shall promptly and at no cost to the Bank secure the principal of, and interest and other charges on, the Loan by an equivalent lien on other public assets satisfactory to the Bank.

(b) The foregoing undertaking shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(c) As used in this Section, the term "public assets" means assets of the Borrower, of any political or administrative subdivision thereof and of any entity owned or controlled by, or operating for the account or benefit of, the Borrower or any such subdivision, including assets held by any institution performing the functions of a central bank or exchange stabilization fund, or similar functions, for the Borrower.

Section 4.02. The Borrower shall take all action necessary to ensure at all times that the amounts owed to EPAL for the sale of water to any municipality or municipal enterprise are paid to

EPAL within three months from the date of EPAL's bill covering such sale or within such other period as may be agreed between the Borrower and the Bank.

ARTICLE V

Remedies of the Bank

Section 5.01. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified pursuant to paragraph (k) thereof:

(a) EPAL shall have failed to perform any of its obligations under the Project Agreement.

(b) An extraordinary situation shall have arisen which shall make it improbable that EPAL will be able to perform its obligations under the Project Agreement.

(c) The Organic Laws of EPAL shall have been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the ability of EPAL to perform any of its obligations under the Project Agreement or the Subsidiary Loan Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of EPAL or for the suspension of its operations without the Bank's consent.

(e) EPAL shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by EPAL or by a creditor of EPAL whereby any of the assets of EPAL shall or may be distributed among EPAL's creditors.

(f) The right of EPAL to withdraw the proceeds of the financing made available under any Other Financing Agreement shall have been suspended, cancelled or terminated in whole or in part pursuant to the terms of that Agreement; unless adequate funds for the Project are available to EPAL from other sources on terms and conditions consistent with the obligations of EPAL under the Project Agreement.

Section 5.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified pursuant to paragraph (h) thereof:

(a) the event specified in paragraph (a) of Section 5.01 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 EPAL; and

(b) any event specified in paragraph (c), (d) or (e) of Section 5.01 of this Agreement shall occur.

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) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and EPAL;

(b) EPAL's tariffs have been increased, with effect from not later than April 1, 1978, to produce on the basis of EPAL's water sales during 1977 an increase of EPAL's gross revenues from water sales during the twelve-month period ending March 31, 1979 of at least 30%;

(c) EPAL has entered into a financing agreement or agreements with an appropriate Lender or Lenders providing EPAL with a loan of at least \$80,000,000 equivalent on terms and conditions satisfactory to the Bank; and

(d) EPAL has appointed a financial director and a commercial director in accordance with Section 3.04 of the Project Agreement.

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 Project Agreement has been duly authorized or ratified by EPAL, and is legally binding upon EPAL in accordance with its terms;

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and EPAL and is legally binding upon the Borrower and EPAL in accordance with its terms;

(c) that the tariff increase referred to in Section 6.01 (b) is in full force and effect and is valid for an indefinite period of time under the laws of the Borrower; and

(d) that the Other Financing Agreement(s) has been duly authorized or ratified by the Other Lender(s) and EPAL and is legally binding upon the parties thereto.

Section 6.03. The date September 6, 1978, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of the Borrower at the time being responsible for 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:

Ministério das Finanças
Rua da Alfandega
Lisbon
Portugal

Cable address:

Ministério das Finanças
Lisbon

Telex:

12143 MINFIN P

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their 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.

REPUBLIC OF PORTUGAL

By /s/ Vitor Constancio
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Martijn Paijmans
Acting Regional Vice President
Europe, Middle East and North Africa

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) Items financed under the Subsidiary Loan Agreement:		
(a) Civil works and materials and equipment required for Part A(1) of the Project	28,100,000	30%
(b) Civil works required for Part A(2) of the Project	5,000,000	15%
(c) Equipment, materials and supplies for Part A(2) of the Project	1,900,000	100% of foreign expenditures and 100% of local expenditures (ex-factory)
(d) Staff training for Part B(1) of the Project	100,000	100% of foreign expenditures
(e) Unallocated	2,700,000	

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(2) Items not financed under the Subsidiary Loan Agreement:		
(a) Consulting services for Parts B(2) and C(1) of the Project	2,000,000	50%
(b) Staff training for Part C(2) of the Project	200,000	100% of foreign expenditures
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TOTAL	40,000,000	
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than the Borrower and for goods or services supplied from the territory of any country other than the Borrower; and

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

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 Borrower 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 exceeding the equivalent of \$50,000 may be made on account of expenditures included in Category 2 (a) and made after September 30, 1977.

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

The Project

The purpose of the Project, which forms part of EPAL's 1978-1982 investment program, is to expand the production and distribution of potable water to meet the projected needs of the Lisbon region until 1990 and to assist in the reorganization of Portugal's water supply and waste disposal sector through studies aimed at strengthening the national capability for planning and design of water supply and sewerage projects in urban and rural areas.

I. Project Description

The Project consists of the following:

Part A. Expansion of the Lisbon region's water supply and distribution systems, including:

- (1) Construction of a new water supply system with an initial capacity of 385,000 m³ per day, including an 89 km long transmission pipeline, linking the Castelo do Bode Reservoir with Lisbon's water distribution networks, a water treatment plant at Asseiceira and pumping stations at Portela and Carregado; and
- (2) Expansion and upgrading of Lisbon's existing water distribution network, including installation of nine intermunicipal trunk mains with a combined length of about 73 km, construction of three pumping stations, construction of seven network reservoirs with a combined capacity of about 130,000 m³ and installation of about 100 km of secondary networks.

Part B:

- (1) Training of senior staff of EPAL through short visits to water supply and sewerage organizations and systems outside Portugal.
- (2) Studies aimed at the regionalization of the water supply, sewerage and solid wastes services in the

Lisbon region, including the technical, administrative and financial implications thereof and a review of EPAL's water tariff structure.

Part C:

- (1) Feasibility studies for water supply and sewerage systems in the Porto and Algarve regions.
- (2) Training of senior staff of the Borrower's General Directorate of Basic Sanitation (DGSB) through short visits to water supply and sewerage organizations and systems outside Portugal.

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The Project is expected to be completed by December 31, 1982.

II. Project Execution

1. Part A of the Project shall be carried out by EPAL.

For purposes of assisting EPAL in the final design engineering and procurement for Part A of the Project, EPAL shall employ consultants whose qualifications, experience and terms and conditions of employment are acceptable to the Bank. The Borrower and EPAL shall each take such action as shall be required on its part for EPAL to acquire, as and when needed for the diligent and efficient execution of Part A of the Project, all such land and rights in respect of land as shall be required by EPAL for the construction and operation of the facilities included in Part A of the Project.

2. Part B of the Project shall be carried out by EPAL.

For the purpose of assisting EPAL in carrying out the studies included in Part B (2) of the Project, EPAL shall employ, from not later than June 30, 1978 onwards, consultants whose qualifications, experience and terms and conditions of employment are acceptable to the Bank.

3. Part C of the Project shall be carried out by the Borrower through DGSB. For the purpose of assisting the Borrower in

carrying out the studies included in Part C (1) of the Project, the Borrower shall employ, from not later than June 30, 1978 onwards, consultants whose qualifications, experience and terms and conditions of employment are acceptable to the Bank.

III. Project Financing

The Borrower shall relend to EPAL the proceeds of the Loan withdrawn on account of expenditures of EPAL for Parts A and B (1) of the Project, under a subsidiary loan agreement concluded between the Borrower and EPAL on terms and conditions acceptable to the Bank; such terms and conditions shall include that EPAL will pay to the Borrower such amounts in various currencies as the Borrower will require for subsequent payment to the Bank of the principal of, and interest and other charges on, the amount of the Loan so withdrawn. It is expected that the costs of EPAL's 1978-1982 investment program (including Parts A and B (1) of the Project) that will not be covered by said withdrawals will be financed partly from contributions made by the Borrower to EPAL's statutory capital, partly from EPAL's own resources and partly from the loan(s) to EPAL under the Other Financing Agreement(s). On the basis of present projections, it is estimated that said statutory capital contributions and loans will amount to the equivalent of at least \$60 million and \$80 million, respectively, and that the total cost of Parts A and B (1) of the Project will amount to the equivalent of at least \$150 million.

The Borrower shall furnish to EPAL the proceeds of the Loan withdrawn on account of expenditures of EPAL for Part B (2) of the Project as part of the statutory capital referred to in the preceding paragraph.

EPAL shall submit annually to the Borrower and the Other Lender(s), by a date to be determined by the Borrower, its investment program for the next following fiscal year together with a forecast of sources and applications of funds related to its operations for that fiscal year and an indication of when funds to be provided by the Borrower and the Other Lender(s) will be required by EPAL for the timely execution of such program and the Project.

The cost of Part C of the Project that will not be covered by the Loan will be financed from the Borrower's budget.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)*</u>
On each May 1 and November 1 beginning November 1, 1981 through November 1, 1992	1,665,000
On May 1, 1993	1,705,000

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

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 3.05 (b) of the General Conditions:

<u>Time of Prepayment</u>	<u>Premium</u>
Not more than three years before maturity	1.50%
More than three years but not more than six years before maturity	3.00%
More than six years but not more than eleven years before maturity	5.45%
More than eleven years but not more than thirteen years before maturity	6.45%
More than thirteen years before maturity	7.45%