

CONFORMED COPY

LOAN NUMBER 7303-UR

Loan Agreement

(Transport Infrastructure Maintenance and Rural Access Project)

between

REPUBLICA ORIENTAL DEL URUGUAY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 16, 2005

LOAN NUMBER 7303-UR

LOAN AGREEMENT

AGREEMENT, dated June 16, 2005, between REPUBLICA ORIENTAL DEL URUGUAY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; 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 Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Loan, or on their importation (with the exception of import tariffs above 28%), manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the

amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Annual Arrangement” means any of the arrangements mentioned in Section 3.05 (a) of this Agreement;

(b) “Annual Departmental Road Rehabilitation and Maintenance Subproject” means any of the annual investments referred to in Part C of the Project;

(c) “BCU” means *Banco Central del Uruguay*, the Borrower’s central bank;

(d) “CREMA Contract” means a multi-year contract under Part B of the Project, entered into by DNV (as defined below) with a private sector contractor, which contract obligates the private sector contractor to undertake all phases of road rehabilitation and maintenance work as a single package, from design and programming of the works, through the execution of such works, with respect to an identified portion of the Borrower’s national road network as referred to in said Part of the Project;

(e) “CREMA Subproject” means any of the investments referred to in Part B of the Project;

(f) “CVU” means the *Corporación Vial del Uruguay, S.A.*, an entity vested with legal personality, which pursuant to the terms of the Assignment Agreement (*Contrato de Cesión*) of February 18, 2003 entered into between CVU and *Corporación Nacional para el Desarrollo*, has been assigned the rights and obligations of *Corporación Nacional para el Desarrollo* (CND) under the Concession Agreement (*Convenio-Contrato*) entered into between the Borrower, through MTOP (as defined below) and CND dated October 5, 2001 (as amended) for purposes of, *inter alia*, granting to CND the administration of the Mega-Concession (as defined below);

(g) “CVU Subproject” means any of the investments referred to in Part A.2 of the Project;

(h) “DNH” means *Dirección Nacional de Hidrografía*, the Borrower’s National Directorate of Hydrography within MTOP (as defined below);

(i) “DNH Subprojects” means any of the investments under Part A.3 of the Project;

(j) “DNV” means *Dirección Nacional de Vialidad*, the Borrower’s National Directorate of Highways within MTOP (as defined below);

(k) “DNV Environmental Manual” means DNV’s environmental manual, acceptable to the Bank, dated May 1998, as the same may be amended from time to time;

(l) “DNV Subprojects” means any of the investments referred to in Part A.1 of the Project;

(m) “Eligible Categories” means Categories (1) through (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(n) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(o) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(p) “HDM-4 Model” means the Highway Development Management Model which is used to carry out technical and economic evaluations of road investments;

(q) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank setting forth: (i) the criteria for selecting Annual Departmental Road Rehabilitation and Maintenance Subprojects; (ii) the list of CREMA Subprojects, CVU Subprojects, DNH Subprojects and DNV Subprojects; (iii) the Project indicators; and (iv) the Resettlement Plan;

(r) “Mega-Concession” means the public road concession, which is currently administered by CVU (as defined above), to carry out construction, rehabilitation and maintenance works in respect of a number of national roads and bridges;

(s) “MTO” means *Ministerio de Transporte y Obras Públicas*, the Borrower’s Ministry of Transport and Public Works;

(t) “Operational Manual” means the manual referred to in Section 3.06 (a) (i) of this Agreement, as the same may be amended from time to time with the agreement of the Bank;

(u) “Participating *Departamento*” means a political subdivision of the Borrower which is vested with legal personality and that has been selected by the Borrower (in a manner acceptable to the Bank) to participate in the carrying out of Annual Departmental Road Rehabilitation and Maintenance Subprojects (as defined above);

(v) “PCU” means the Project coordination unit established in MTO (as defined above) pursuant to the Borrower’s resolution dated September 19, 1989;

(w) “Procurement Plan” means the Borrower’s procurement plan, dated April 13, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(x) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.4 of Schedule 1 to this Agreement;

(y) “Resettlement” means the impact of an involuntary taking of land under the Project which taking causes affected persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently;

(z) “Resettlement Plan” means the Borrower’s plan (acceptable to the Bank) dated April 1, 2005 which sets forth, *inter alia*, the legal framework for the expropriation of affected land, the lots of affected land to be subject to expropriation, the timing for the expropriation of said land, the estimated amount of compensation to be paid to the affected population and the socio-economic situation of the same;

(aa) “Road Safety Subproject” means any of the investments referred to in Part D of the Project;

(ab) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(ac) "Subproject" means an Annual Departmental Road Rehabilitation and Maintenance Subproject, a CVU Subproject, a DNH Subproject, a DNV Subproject, a CREMA Subproject, and/or a Road Safety Subproject (as the case may be); and

(ad) "Subsidiary Agreement" means the agreement referred to in Section 3.04 (a) of this Agreement, as the same may be amended from time to time with the agreement of the Bank.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to CVU in respect of Part A.2 of the Project.

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 this Agreement, an amount equal to seventy million Dollars (\$70,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan, the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be July 31, 2011 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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 such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, shall:

(a) carry out: (i) Parts A.1, B and D of the Project through DNV; (ii) Part A.3 of the Project through DNH; and (iii) Part E of the Project through MTOP, all with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering, public utility, ecological and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project;

(b) cause CVU (pursuant to the terms of the Subsidiary Agreement) to carry out Part A.2 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering, public utility, ecological and environmental practices, shall take and/or cause to be taken (as the case may be) all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CVU to carry out said Part of the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of said Part of the Project; and

(c) cause each Participating *Departamento* (pursuant to the terms of the corresponding Annual Arrangement, as said term is defined in Section 1.02 (a) of this Agreement) to carry out the corresponding Annual Departmental Road Rehabilitation and Maintenance Subproject (as said term is defined in Section 1.02 (b) of this Agreement) with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering, municipal, ecological and environmental practices, shall take and/or cause to be taken (as the case may be) all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each Participating *Departamento* to carry out the corresponding Annual Departmental Road Rehabilitation and Maintenance Subproject, and shall not take or

permit to be taken any action which would prevent or interfere with the carrying out of said Annual Departmental Road Rehabilitation and Maintenance Subproject.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

Section 3.04. (a) For purposes of carrying out Part A.2 of the Project, the Borrower shall make the proceeds of the Loan (allocated to Category (1) (b) set forth in Part A.1 of Schedule 1 to this Agreement) available to CVU under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and CVU (as referred to in paragraph (b) below), under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 5 to this Agreement.

(b) The Borrower shall, and shall cause CVU to, prior to the commencement of any works under Part A.2 of the Project: (i) enter into the Subsidiary Agreement; and (ii) furnish to the Bank an opinion or opinions, acceptable to the Bank, of counsel acceptable to the Bank, providing that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and CVU and is legally binding upon the Borrower and CVU in accordance with its terms.

(c) (i) The Borrower shall exercise its rights and carry out 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 (ii) 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 3.05. (a) For purposes of carrying out each Annual Departmental Road Rehabilitation and Maintenance Subproject within the territorial jurisdiction of a given Participating *Departamento*, the Borrower shall make a portion of the proceeds of the Loan (allocated to Category (1) (e) set forth in Part A.1 of Schedule 1 to this Agreement) available to said Participating *Departamento* under the pertinent annual arrangement (the Annual Arrangement) to be entered into between the Borrower and each Participating *Departamento* (prior to the carrying out of the pertinent Annual Departmental Road Rehabilitation and Maintenance Subproject), under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 6 to this Agreement.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under each Annual Arrangement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Annual Arrangement or any provision thereof.

Section 3.06. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:

- (i) not later than three months after the Effective Date, approve a manual (the Operational Manual), acceptable to the Bank, said manual to include, *inter alia*: (A) the institutional and administrative structure of the PCU and its functions and responsibilities; (B) the terms of reference for the professional and administrative staff of PCU; (C) the Project's chart of accounts, internal controls, and budgeting, accounting and financial reporting systems; (D) the FMR formats; (E) the terms of reference for carrying out the Project audits under Section 4.01 (b) (i) of this Agreement; (F) the Project disbursement and procurement procedures; (G) the Project's standard bidding documents (which shall include, in respect of the works to be carried under the Subprojects, a provision whereby the contractor must comply with the pertinent provisions of the pertinent environmental management plan (referred to in Sections 3.08, 3.09 and 3.10 of this Agreement) in carrying out said works); and (H) the terms of reference for the progress reports referred to in Section 3.12 of this Agreement; and

- (ii) thereafter carry out Parts A.1, A.3, B, D and E of the Project, and cause CVU and each Participating *Departamento* to carry out the Parts of the Project under their responsibility, in accordance with the provisions of the Operational Manual.

(b) During the period before the Borrower has approved the Operational Manual, the Borrower shall ensure that the Project's chart of accounts, internal controls, and budgeting, accounting and financial reporting systems have been established, and are in operation, all in a manner acceptable to the Bank.

(c) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.07. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall, and shall cause CVU and each Participating *Departamento* to, carry out the Parts of the Project under their responsibility, in accordance with the provisions of the DNV Environmental Manual, which manual sets forth, *inter alia*, the environmental norms, guidelines and procedures for carrying out the environmental screenings and/or environmental assessments referred to in Sections 3.08, 3.09 and 3.10 of this Agreement.

(b) In case of any conflict between the terms of the DNV Environmental Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.08. Without limitation to the provisions of Section 3.01 (a) of this Agreement, the Borrower shall: (a) prior to the commencement of any works for a particular DNV Subproject, DNH Subproject, CREMA Subproject, and/or Road Safety Subproject: (i) carry out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent works; and (ii) if determined by the Bank, approve an environmental management plan, acceptable to the Bank, for each said works (which plan shall be based on the results of the environmental screening and/or environmental assessment mentioned in (i) herein, and the Bank comments on the results of said screening and/or assessment, if any), all in accordance with the provisions of the DNV Environmental Manual; and (b) immediately after said approval, implement and/or cause to be implemented (as the case may be) the corresponding environmental management plan in accordance with its terms.

Section 3.09. Without limitation to the provisions of Sections 3.01 (b) and 3.04 (b) of this Agreement, the Borrower shall cause CVU to: (a) prior to the commencement of any works under each CVU Subproject: (i) carry out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent works; and (ii) if determined by the Bank, approve an environmental management plan, acceptable to the

Bank, for each said works (which plan shall be based on the results of the environmental screening and/or environmental assessment mentioned in (i) herein, and the Bank comments on the results of said screening and/or assessment, if any), all in accordance with the provisions of the DNV Environmental Manual; and (b) immediately after said approval, implement and/or cause to be implemented (as the case may be) the corresponding environmental management plan in accordance with its terms.

Section 3.10. Without limitation to the provisions of Section 3.01 (c) of this Agreement, the Borrower shall cause each Participating *Departmento* to: (a) prior to the commencement of any works for a particular road within an Annual Departmental Road Rehabilitation and Maintenance Subproject: (i) carry out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent works; and (ii) if determined by the Bank, approve an environmental management plan, acceptable to the Bank, for each said works (which plan shall be based on the results of the environmental screening and/or environmental assessment mentioned in (i) herein, and the Bank comments on the results of said screening and/or assessment, if any), all in accordance with the provisions of the DNV Environmental Manual; and (b) immediately after said approval, implement and/or cause to be implemented (as the case may be) the corresponding environmental management plan in accordance with its terms.

Section 3.11. (a) The Borrower shall operate and maintain, at all times during Project implementation, the PCU with a structure, functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of the PCU to assist the Borrower in the coordination, monitoring and supervision of the carrying out of the Project.

(b) The Borrower shall ensure that the PCU is, at all times during Project implementation, headed by a Project coordinator and assisted by professional and administrative staff, all in numbers and with qualifications and experience acceptable to the Bank.

Section 3.12. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and to furnish to the Bank, not later than thirty days after the end of each calendar semester during Project implementation (starting with the report due in January 2006), a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph

(a) of this Section, on the progress achieved in the carrying out of the Project during the calendar semester preceding the date of presentation of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the following calendar semester; and

(c) review with the Bank, CVU and the Participating *Departamentos* not later than July 30 of each year of Project implementation (starting in the year 2006), the pertinent reports referred to in paragraph (b) of this Section, and, thereafter, take and/or cause to be taken, as the case may be, all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter. As part of the annual review to be carried out in the year 2007 (the mid-term review), the Borrower shall also review with the Bank the progress achieved by MTOP in the carrying out of the Project activity referred to in Part E.1 of the Project.

Section 3.13. Without limitation to the provisions of Section 3.01 (a) (i) and (ii) of this Agreement, the Borrower shall not later than December 31 of each year of Project implementation (starting in the year 2005), prepare and furnish to the Bank an annual investment plan, acceptable to the Bank (each such plan to include, *inter alia*, a complete description of: (a) DNV's annual national road maintenance investments; and (b) DNH's annual national maintenance investments, the expenditures to be incurred in respect of said works and the source of financing of said expenditures).

Section 3.14. (a) The Borrower shall ensure that any Subproject (with the exception of the CVU Subproject to be carried out under Part A.2 (a) (i) of the Project) does not involve any Resettlement.

(b) The Borrower shall: (i) cause CVU to implement, prior to the commencement of any works under the CVU Subproject to be carried out under Part A.2 (a) (i) of the Project, the Resettlement Plan in accordance with its terms; and (ii) take and/or cause to be taken, all necessary actions to enable CVU to comply with its obligation referred to in (i) herein.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower shall:
- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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 reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure (as the case may be), the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.12 of this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause CVU:

- (a) to make a provision satisfactory to the Bank for insurance against such risks and in such amounts as shall be consistent with appropriate practice; and
- (b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, technical, social, engineering, public utility, ecological and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

(a) That CVU shall have failed to perform one or more of its obligations under the Subsidiary Agreement, so as to materially and adversely affect, in the opinion of the Bank, the ability of CVU to carry out Part A.2 of the Project, and/or to assist the Borrower in complying with its obligations related to said Part of the Project (as referred to in paragraph (b) of Schedule 5 to this Agreement).

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that CVU will be able to perform any of its obligations under the Subsidiary Agreement.

Section 6.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty calendar days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VII

Termination

Section 7.01. The date September 14, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister of MTOP is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Transportes y Obras Públicas
Rincón 561, piso 8, esq. Ituzaingo
Montevideo, Uruguay

Cable address:

Telex:

Facsimile:

MINTRANSP

39822071

598-2-916-2883

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:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Montevideo, Uruguay, as of the day and year first above written.

REPUBLICA ORIENTAL DEL URUGUAY

By /s/ Danilo Astori

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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) Works:		
(a) under DNV Subprojects	5,200,000)	70%
(b) under CVU Subprojects	17,000,000)	
(c) under DNH Subprojects	5,320,000)	
(d) under CREMA Subprojects	15,230,000)	
(e) under Annual Departmental Road Rehabilitation and Maintenance Subprojects	12,760,000)	
(f) under Road Safety Subprojects	1,500,000)	
(2) Goods under Road Safety Subprojects	850,000	70%
(3) Consultants' services	3,910,000	70%
(4) Front-end fee	350,000	Amount due under Section 2.04 of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(5) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(6) Unallocated	<u>7,880,000</u>	
TOTAL	<u>70,000,000</u>	

2. 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 \$14,000,000, may be made in respect of Categories (1) through (3) set forth in the table in paragraph A.1 of this Schedule on account of payments made for expenditures within one year before that date but after June 1, 2004.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$200,000 equivalent per contract with the exception of: (i) the first three contracts to be procured under Part B.1 (a) of Section II of Schedule 4 to this Agreement; and (ii) any other contract for goods to be subject to Prior Review as provided in Section IV (c) of Schedule 4 to this Agreement; (b) works costing less than \$4,000,000 equivalent per contract with the exception of: (i) the first three contracts to be procured under Part B.1 (b) of Section II of Schedule 4 to this Agreement (which shall include within those three contracts at least one contract for works under a CREMA Subproject); and (ii) any other contract for works to be subject to Prior Review as provided in Section IV (c) of Schedule 4 to this Agreement; (c) services of individual consultants costing less than \$50,000 equivalent per contract with the exception of those contracts for services of individuals consultants selected on a sole source basis; and (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract with the exception of those contracts for services of consulting firms selected on a sole source basis, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

4. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan

Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in BCU, on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based

Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions 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 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.

Annex B

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to upgrade the Borrower's transport infrastructure to a condition which facilitates the transportation of freight and passengers at a cost-efficient level of service.

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 objective:

Part A: Transport Infrastructure Rehabilitation

1. Carrying out of rehabilitation works (within the existing right of way) which consist of reinforcing the pavement structures for:

(a) approximately 15 kilometers of the section between the kilometer in which the Borrower's former national route 3 started and kilometer 594.1 on the Borrower's national route 3; and

(b) approximately 20 kilometers of the Río Tacuarí and Cañada Santos section on the Borrower's national Route 18, all as listed in the Implementation Letter.

2. (a) Carrying out of rehabilitation works which consist of reinforcing the pavement structures for: (i) approximately 5 kilometers of the section located between kilometer 144 on the Borrower's national route 1 and the area which links said route with the Borrower's national route 22; (ii) approximately 16 kilometers (within the existing right of way) of the section located between kilometer 144 on the Borrower's national route 1 and the area which links said route with the Borrower's national route 2; and (iii) approximately 3 kilometers (within the existing right of way) of the *La Planta Urbana de Young* section on the Borrower's national route 3; and

(b) carrying out of bridge restoration works (within the existing right of way) which consist of strengthening, widening and/or replacing the existing structures of approximately 20 bridges located on the Borrower's national routes 1, 5, 6, 7, 8, 21, 26, 28 30 and 200, and on the access to the city of Montevideo (all under the Mega-Concession), as said rehabilitation and bridge restoration works are listed in the Implementation Letter.

3. Carrying out of minor rehabilitation works in selected transfer terminals listed in the Implementation Letter.

Part B: Road Rehabilitation and Maintenance Contracting

Carrying out, under the terms of six (6) CREMA Contracts, of rehabilitation works (such as base reconstruction, resurfacing, or asphalt concrete overlaying, all within the existing right of way) and/or maintenance works for approximately 981 kilometers on the Borrower's national roads, as listed in the Implementation Letter.

Part C: Departmental Road Rehabilitation and Maintenance

Carrying out of annual rehabilitation/periodic maintenance road programs (which meet the criteria set forth in the Implementation Letter) in Participating *Departamentos* each year of Project implementation (which annual programs consist of resurfacing, asphalt concrete overlaying or reconstruction of the existing structure over a recycled base course, and providing periodic maintenance for approximately 9,000 kilometers of gravel roads (in the aggregate), as well as annual rehabilitation/periodic maintenance of bridges), all located within the territorial jurisdiction of the pertinent Participating *Departamento*.

Part D: Transport Infrastructure Safety

Carrying out of a national road safety program, which program consists of, *inter alia*:

(a) the illumination of selected national route sections in which a high number of accidents occur during nighttime;

(b) the improvement of pavement markings and road signs in selected national routes;

(c) the construction of foot/bike paths (within the existing right of way) to segregate and protect pedestrian and non-motorized traffic on selected national routes; and

(d) the acquisition of road signals and barriers, as said investments and routes are listed in the Implementation Letter.

Part E: Transport Sector Management and Institutional Building

1. Design of MTOP's transport infrastructure plan for the years 2005-2009, including the carrying out of engineering and economic studies, as needed, for the completion of said design.
2. Gradual implementation of the HDM-4 Model in DNV, including the provision of training to DNV's personnel required therefor.
3. Strengthening of the Borrower's planning capacity to develop:
 - (a) a plan to improve road maintenance practices in the Participating *Departamentos*;
 - (b) a plan to establish future interior ports in Uruguay;
 - (c) a master port plan for the *Nueva Palmira* port; and
 - (d) individual plans for other ports within the Borrower's territory, as approved by the Bank.
4. Design of an urban transport master plan for the city of Montevideo.
5. Preparation of a proposed Montevideo ring-road project, including but not limited to the carrying out of feasibility studies, environmental and social assessments and detailed designs of investments to be carried out under the proposed project, all as approved by the Bank.

* * *

The Project is expected to be completed by January 31, 2011.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying:

(a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by

(b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each April 15 and October 15 Beginning October 15, 2010 through April 15, 2020	5%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. Without limitation to the provisions in Parts A and B of this Section the following additional provisions shall govern the procurement of goods, works and consultants' services under the Project (as the case may be):

1. The lowest evaluated bid shall be selected for contract award.
2. Foreign bidders shall be allowed to participate in national competitive bidding.
3. Foreign bidders may be required as a prerequisite for bidding to be registered with local authorities, provided, however, that the information to be requested from such bidders is of such nature that it will not discourage their participation.
4. There shall be no prescribed minimum number of bids to be submitted in order for a contract to be subsequently awarded.
5. After the public opening of bids, information relating to the examination, clarification and evaluation of bids and proposals and recommendations concerning awards shall not be disclosed to bidders or consultants or other persons not officially concerned with this process until the publication of contract award (except as provided in paragraphs 2.20 and 2.27 of the Consultant Guidelines).
6. Foreign bidders shall not be required to authenticate (*legalizar*) their bidding documents or any documentation related to such bidding documents with Uruguayan authorities as a prerequisite for bidding.

7. There shall be no preference for domestic contractors.
 8. The prices of contracts for consultants' services over one year duration may be adjusted.
 9. Foreign consultants shall not be required to authenticate (*legalizar*) their proposals or any documentation related to such proposals with Uruguayan authorities as a prerequisite for participating in the selection procedure.
 10. The invitations to bid, bidding documents, minutes of bid openings, requests for expressions of interest, the evaluation reports of bids and proposals, and contract awards of all goods, works, and consultants' services, as the case may be, shall be published in a web page acceptable to the Bank, and in a manner acceptable to the Bank.
- D. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding.

(a) Goods estimated to cost less than \$200,000 equivalent per contract; and
(b) works (other than those works under Annual Departmental Road Rehabilitation and Maintenance Subprojects) estimated to cost less than \$4,000,000 equivalent per contract, all may be procured under contracts awarded on the basis of National Competitive Bidding.

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

2. Shopping. (a) Goods estimated to cost less than \$2,000 equivalent per contract; and (b) works (other than those works under Annual Departmental Road Rehabilitation and Maintenance Subprojects) estimated to cost less than \$10,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Force Account. Works under Annual Departmental Road Rehabilitation and Maintenance Subprojects which the Bank agrees meet the requirements for Force Account may be carried out in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality-and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$300,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Consultants' services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Single Source Selection. Consultants' services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines

3. Individual Consultants. Consultants' services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank:

(a) each contract for goods and works to be procured under Part A of Section II of this Schedule;

(b) the first three contracts for goods to be procured under Part B.1 (a) of Section II of this Schedule;

(c) the first three contracts for works (which shall include within those three contracts at least one contract for works under a CREMA Subproject) to be procured under Part B.1 (b) of Section of this Schedule;

(d) the first two contracts to be procured under Part B.2 of Section II of this Schedule irrespective if said contracts are for goods only or for works only, or a combination of the two types of contracts in the aggregate; and

(e) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more or selected on a sole source basis. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Terms and Conditions of the Subsidiary Agreement

The Subsidiary Agreement shall contain, *inter alia*, the following provisions:

- (a) the obligation of the Borrower to promptly provide the necessary funds to CVU to enable CVU to carry out Part A.2 of the Project as provided in Section 3.01 (b) of this Agreement; and
- (b) the obligation of CVU:
 - (i) to carry out Part A.2 of the Project in accordance with the pertinent provisions of this Agreement;
 - (ii) to comply with the obligations referred to in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A.2 of the Project;
 - (iii) to take or permit to be taken all action to enable the Borrower to comply with its obligations under Sections 3.04 (a) and (b), 3.06 (a) (ii), 3.07 (a), 3.09, 3.14, 4.01, 4.02 and 5.01 of this Agreement;
 - (iv) to participate in the reviews referred to in Section 3.12 (c) of this Agreement; and
 - (v) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Subsidiary Agreement or any provision thereof.

SCHEDULE 6

Terms and Conditions of the Annual Arrangements

Each Annual Arrangement shall contain, *inter alia*, the following provisions:

- (a) (i) the obligation of the Borrower to promptly provide the necessary funds to each Participating *Departamento* to enable the same to carry out their respective Annual Departmental Road Rehabilitation and Maintenance Subproject as provided in Section 3.01 (c) of this Agreement; and
- (ii) the right of the Borrower to take remedial action against any Participating *Departamento* which fails to comply with any of the provisions of its respective Annual Arrangement (which actions may include but not limited to the suspension of Loan disbursements against the defaulting Participating *Departamento*); and
- (b) the obligation of each Participating *Departamento*:
 - (i) to carry out their respective Annual Departmental Road Rehabilitation and Maintenance Subprojects in accordance with the pertinent provisions of this Agreement;
 - (ii) to comply with the obligations referred to in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of each Annual Departmental Road Rehabilitation and Maintenance Subproject;
 - (iii) to take or permit to be taken all action to enable the Borrower to comply with its obligations under Sections 3.06 (a) (ii), 3.07 (a), 3.10, 3.14, 4.01 and 4.02 of this Agreement;
 - (iv) to participate in the reviews referred to in Section 3.12 (c) of this Agreement; and

- (v) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Annual Arrangement Agreement or any provision thereof.