

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7378-MOR

Loan Agreement

(Second Rural Roads Project)

between

CAISSE POUR LE FINANCEMENT ROUTIER

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 8, 2006

LOAN NUMBER 7378-MOR

LOAN AGREEMENT

AGREEMENT, dated September 8, 2006, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CAISSE POUR LE FINANCEMENT ROUTIER (the Borrower).

WHEREAS (A) the Kingdom of Morocco (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project, in support of the first phase of the Guarantor's second national program of rural roads covering the period 2005-2010, aiming at increasing the level of accessibility of rural population to all-weather roads to 80% by the year 2015 ("the Program");

(B) the Bank has received a strategic framework and implementation letter ("Lettre de choix stratégiques, cadrage et modalités d'exécution") ("the Framework Letter") dated March 28, 2006, from the Guarantor, through its Ministry of Equipment and Transport, describing a program of measures, objectives, actions and implementation procedures for the Program;

(C) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan); 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Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, 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 Allocation” means the portion of the Loan determined jointly between the Borrower and the Bank within the limit of the amount set forth in the Annual Work Plan (as this term is hereinafter defined) for Part A of the Project;

(b) “Annual Report” means an annual report to be submitted to the Bank in accordance with Part B.3 of Schedule 5 to this Agreement, describing, *inter alia*, the progress achieved in carrying out Part A of the Project in the Fiscal Year (as this term is hereinafter defined) preceding said report in light of the monitoring indicators agreed between the Bank and the Borrower;

(c) “Annual Work Plan” means an annual work plan for the implementation of Part A of the Project for a given Fiscal Year (as this term is hereinafter defined), to be submitted to the Bank in accordance with Part B.4 of Schedule 5 to this Agreement;

(d) “Basic Legislation” means the Guarantor’s Law (“Dahir”) No. 57-03, dated May 4, 2004, pursuant to which the Borrower has been established and is operating as a legally and financially autonomous public entity;

(e) “CNER” means the National Center for Road Studies and Research (Centre National d’Etudes et de Recherches Routières) within MET (as this term is hereinafter defined);

- (f) “Dirhams” means the lawful currency of the Kingdom of Morocco;
- (g) “DPE” means the Provincial Offices of MET (as this term is hereinafter defined) (Directions Provinciales de l’Equipement);
- (h) “DRCR” means the Directorate of Roads and Road Traffic (Direction des Routes et de la Circulation Routière) within MET (as this term is hereinafter defined);
- (i) “DRE” means the Regional Offices of MET (as this term is hereinafter defined) (Directions Régionales de l’Equipement);
- (j) “EMP” means the Project Environmental Management Plan, satisfactory to the Bank, prepared by the Borrower and DRCR and submitted to the Bank on February 13, 2006, included in the Project Implementation Plan (as this term is hereinafter defined), as the same may be amended from time to time with the Bank’s prior agreement, and including, *inter alia*, the environmental assessment procedures for the implementation of the Program in accordance with appropriate environmental standards and guidelines, said procedures governing, *inter alia*, the preparation of environmental assessments for construction activities to be carried out under the Project;
- (k) “Financial Monitoring Report” and the acronym “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;
- (l) “Fiscal Year” means the Borrower’s fiscal year, starting January 1 and ending December 31 of each calendar year;
- (m) “Framework Agreement” means the agreement dated August 22, 2005 between, respectively, the Borrower, MET (as this term is hereinafter defined) and the Ministry of Finance and Privatization of the Guarantor, relating to the construction of rural roads under the Program (“Convention Etat-CFR”), pursuant to which DRCR is designated as oversight entity and construction manager for all rural road activities to be carried out under the Program, which agreement shall not be amended without the Bank’s prior consultation;
- (n) “FSR” means the road fund (“Fonds Spécial Routier”) established by the Guarantor’s 1989 Finance Law No. 21-88 to finance road maintenance and rural roads development and construction;
- (o) “Land Acquisition and Resettlement Policy Framework” means the land acquisition and resettlement policy framework, satisfactory to the Bank, prepared by the Borrower and DRCR and submitted to the Bank on February 13, 2006, included in the Project Implementation Plan (as this term is hereinafter defined), as the same may be amended from time to time with the Bank’s prior agreement, and setting forth, *inter alia*, the requirements applying to land acquisition in connection with construction activities to be carried out under the Program;

(p) “Manual” means the manual prepared by DRCR for rural road design and appraisal under the Program;

(q) “Midterm Review” means the midterm review to be carried out pursuant to Part C of Schedule 5 to this Agreement;

(r) “MET” means the Guarantor’s Ministry of Equipment and Transport (Ministère de l’Équipement et du Transport) or any successor thereto;

(s) “PMU” means the unit within DRCR, responsible for the implementation and coordination of the Program, established by MET’s decision dated September 8, 2005;

(t) “Procurement Plan” means the Borrower’s procurement plan, dated March 3, 2006, covering the initial twelve (12) month period (or longer) of the implementation of Part A of the Project, 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 twelve (12) month periods (or longer) of Project implementation;

(u) “Project Area” means the area in which Project activities will be carried out in the Guarantor’s regions of Tanger-Tetouan, Taza-Al-Hoceima-Taounate, Fez-Boulmane, Meknes-Tafilalt, Tadla-Azilal, Doukkala-Abda, Rabat-Sale-Zemmour-Zaër, Casablanca, Oriental, Marrakech-Tensift-El Haouz, Chaouia-Ourdigha, Gharb-Chrarda-Beni Hsen, and Souss-Massa-Draâ, and the Guarantor’s province of Guelmin;

(v) “Project Implementation Plan” means the project implementation plan prepared by the Borrower and DRCR, dated March 25, 2006, at all times satisfactory to the Bank, setting forth, *inter alia*: (i) the respective roles and responsibilities for the implementation of the Project; (ii) the accounting, financial reporting and auditing arrangements; (iii) the Procurement Plan; (iv) the monitoring and evaluation procedures, including the performance indicators agreed between the Bank and the Borrower for the Program; (v) the environmental assessment procedures; (vi) the Land Acquisition and Resettlement Policy Framework; (vii) the EMP; and (viii) the procedures manual for the administrative and financial management of the Program, as said Plan may be updated periodically by agreement between the Borrower and the Bank;

(w) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.3 of Schedule 1 to this Agreement;

(x) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(y) “Regional Framework Agreement” means a framework agreement entered into between MET and each of the Guarantor’s regions within the Project Area, with a view to securing the latter’s, including the latter’s respective provinces and municipalities (“communes”), contribution to the financing of their respective local rural roads under the Program;

(z) “Specific Provincial Agreement” means a specific agreement entered into between MET and each of the Guarantor’s provinces within the Project Area, including the Guarantor’s municipalities (“communes”) concerned by the Program, under the relevant Regional Framework Agreement, with a view to securing said municipalities’ contribution to the financing and maintenance of their respective local rural roads under the Program, as well as contribution of right-of-way land for said roads;

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

(bb) “Eligible Category” means category (1) of the table set forth in Part A.1 of Schedule 1 to this Agreement.

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 fifty million Euros (€50,000,000), 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: (a) expenditures made (or, if the Bank shall so agree, to be made) in respect of interest and other charges in respect 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; and (b) amounts paid (or if the Bank shall so agree, to be paid) on account of withdrawals made by the Borrower to meet the reasonable cost of goods, works, consultants’ services and training required under an Annual Work Plan for Part A of the Project.

Section 2.03. The Closing Date shall be June 30, 2012, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. 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 commitment charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the unwithdrawn loan balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

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 June 1 and December 1 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.

Section 2.10. The Director of the Borrower, and any person or persons whom he or she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate technical, engineering, transport, environmental, social, administrative, economic and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Part A of the Project in a manner satisfactory to the Bank and in accordance with the Implementation Program set forth in Schedule 5 to this Agreement, the Framework Letter, the Framework Agreement, the EMP, the Land Acquisition and Resettlement Policy Framework, the Project Implementation Plan and the Manual, the provisions of which shall not be amended or waived without the Bank's prior agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for Part A of 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 twelve (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 designed to ensure the continued achievement of the Project objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, throughout the duration of the Project, 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 its operations and financial condition and to register separately the operations, resources and expenditures related to Part A of the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in sub-paragraph (a) of this Section for each Fiscal Year (or such other period agreed between the Borrower and 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 (6) months after the end of each such Year (or such other period agreed between the Borrower and the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such Year (or such other period agreed between the Borrower and 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.3 of Schedule 1 to this Agreement (Report-based Disbursements), the Borrower shall:

- (i) retain, until at least one (1) 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 are included in the audit for each Fiscal Year (or such other period agreed between the Borrower and the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's obligations set out in Parts B and C of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a Financial Monitoring Report for Part A of the Project, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for Part A of 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 the implementation of Part A of the Project, 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 Part A of 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 forty five (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 forty five (45) days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Management and Operations of the Borrower

Section 5.01. The Borrower shall:

- (a) carry on its operations and conduct its affairs in accordance with appropriate technical, engineering, transport, environmental, social, administrative and financial practices under the supervision of qualified and experienced management, who is assisted by competent staff in adequate numbers;
- (b) at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices; and
- (c) take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

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, namely, that:

- (a) the Basic Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement;
- (b) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;
- (c) the Program shall have been amended, waived or abrogated in a manner that could materially or adversely affect the Project's implementation or the achievement of its objectives; and
- (d) the Project Implementation Plan shall have been amended, waived or abrogated so as to adversely affect the efficiency, economy and transparency of various operational, implementation, environmental and social safeguards and procurement procedures under the Project.

Section 6.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional events are specified, namely that any of the events specified in paragraphs (b), (c) and (d) of Section 6.01 of this Agreement shall occur and shall continue for a period of thirty (30) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VII

Termination

Section 7.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. Except as provided in Section 2.10 of this Agreement, the President of the Board of Directors of the Borrower 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 Bank:

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

Cable address:	Telex:	Fascimile:
INTBAFRAD Washington, D.C.	248423 (MCI) 64145 (MCI)	202-477-6391

For the Borrower:

Caisse pour le Financement Routier
P.O Box 6465
Madinat Al Irfane
10100 Rabat
Kingdom of Morocco

Facsimile:

212 37 71 35 26

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

/s/ Hasan A. Tuluy
Authorized Representative
Middle East and North Africa

CAISSE POUR LE FINANCEMENT ROUTIER

By

/s/ Karim Ghellab
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 Euros)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works, consultants' services and training under approved Annual Work Plan	49,875,000	100 % of the Annual Allocation under the Annual Work Plan ending December 31, 2006; 100% of the Annual Allocation under the Annual Work Plan ending December 31, 2007; 100% of the Annual Allocation under the Annual Work Plan ending December 31, 2008; 100% of the Annual Allocation under the Annual Work Plan ending December 31, 2009; and 100% of the Annual Allocation under the Annual Work Plan ending December 31, 2010
(2) Front-end Fee	125,000	Amount due under Section 2.04 of this Agreement
(3) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09(c) of this Agreement
TOTAL	<u>50,000,000</u>	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding five million Euros (€5,000,000), may be made in respect of Category 1 set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after January 1, 2006; (b) payments made for expenditures under an Annual Work Plan for rural road upgrading, rehabilitation and construction activities unless the Borrower shall have furnished evidence, satisfactory to the Bank, confirming that no land acquisition is required for purposes of said activities; and (c) payments made for expenditures under an Annual Work Plan, unless the Bank has determined that evidence of the Borrower's compliance with the monitoring and performance indicators agreed between the Bank and the Borrower relating to such Plan is satisfactory to the Bank in accordance with the provisions of Part B.3 of Schedule 5 to this Agreement.

3. 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, the Annual Report and the Annual Work Plan (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 twelve (12) month period following the date of such request.

B. Special Account

1. The Borrower shall open and maintain in Dirhams a special deposit account in the Guarantor's general treasury ("Trésorerie Générale du Royaume") 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 in accordance with the provisions of Annex A 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 1, 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.3 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.

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 1 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 (6) 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 sub-paragraphs (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 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.3 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the twelve (12) month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to increase rural populations' access to all-weather roads in support of the first phase (2005-2010) of the Guarantor's Program.

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, namely:

Part A: Rural Roads financed by the Borrower

Carrying out an upgrading and rehabilitation program of about 4600 km of rural roads in the Project Area, including complementary road related infrastructure in relation to said roads, through the carrying out of works and the provision of goods, services and training.

Part B: Rural Roads financed by DRCR and FSR

Carrying out an upgrading and rehabilitation program of about 3200 km of rural roads in the Project Area, including complementary road related infrastructure in relation to said roads, through the carrying out of works and the provision of goods, services and training.

* * *

The Project is expected to be completed by December 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; and (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>
June 1, 2012	3.13
December 1, 2012	3.13
June 1, 2013	3.13
December 1, 2013	3.13
June 1, 2014	3.13
December 1, 2014	3.13
June 1, 2015	3.13
December 1, 2015	3.13
June 1, 2016	3.13
December 1, 2016	3.13
June 1, 2017	3.13
December 1, 2017	3.13
June 1, 2018	3.13
December 1, 2018	3.13
June 1, 2019	3.13
December 1, 2019	3.13
June 1, 2020	3.13
December 1, 2020	3.13
June 1, 2021	3.13
December 1, 2021	3.13
June 1, 2022	3.13
December 1, 2022	3.13
June 1, 2023	3.13
December 1, 2023	3.13
June 1, 2024	3.13
December 1, 2024	3.13
June 1, 2025	3.13

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
December 1, 2025	3.13
June 1, 2026	3.13
December 1, 2026	3.13
June 1, 2027	3.13
December 1, 2027	2.97

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 (2) 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) under Part A of the Project 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 under Part A of the Project 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. 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 for works and goods 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 and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost \$200,000 equivalent or less per contract and works estimated to cost \$5,000,000 equivalent or less per contract, as such thresholds may be increased by agreement between the Borrower and the Bank, may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with procedures acceptable to the Bank. Said procedures shall ensure, *inter alia*, that:

(a) the bid document clearly explains the bid evaluation, award criteria and bidder qualification criteria;

(b) technical, administrative and financial envelopes are publicly and simultaneously opened;

(c) bids shall be evaluated on price and any other criteria disclosed in the bid documents and quantified in monetary terms;

(d) contracts are awarded to the qualified bidder following the criteria referred to in the preceding sub-paragraph (a), with the lowest evaluated responsive bid;

(e) the requirement for bidders to have a local representative, established in the territory of the Guarantor, shall not apply;

(f) the evaluation method for procurement of goods should be on a lot basis, rather than on an article basis; and

(g) prospective bidders shall be allowed a minimum of thirty (30) calendar days from the date of the first call for bids to submit bids and the invitation to bid shall so specify.

2. Shopping. Goods estimated to cost less than \$25,000 equivalent per contract and works estimated to cost less than \$25,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured 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 \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. 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. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. 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.

6. Individual 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.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

A. Project Coordination, Implementation, Monitoring and Evaluation

1. At the central level, the Borrower shall be responsible for the administrative and financial management of Part A of the Project and shall contribute to the overall Project coordination and monitoring of progress and implementation.

2. Pursuant to the Framework Agreement:

(a) The Borrower shall collaborate with DRCR to prepare the multi-year strategy as well as implementation, investment and financing plans for all rural road activities proposed to be financed under the first phase of the Program, taking into account the overall progress of the Program and its impact on the national rural road accessibility index.

(b) Responsibility for the coordination and monitoring of the execution of Project activities shall be vested with DRCR in accordance with said Framework Agreement and the processes and procedures set forth in the Project Implementation Plan.

(c) At the regional and provincial levels, DREs and DPEs shall be responsible for Project implementation coordination, and monitoring in accordance with the processes and procedures set forth in the Project Implementation Plan, and shall liaise with the Guarantor's local authorities benefiting from the Program, under the respective Regional Framework Agreements and the Specific Provincial Agreements entered into with said authorities.

3. Pursuant to the Framework Letter:

(a) DRCR, through PMU, shall centralize all technical and financial data related to the Program and prepare and submit to the Bank consolidated annual implementation reports on said Program.

(b) CNER shall be responsible for monitoring and evaluating the progress achieved in the implementation of the Program.

B. Project Reporting Arrangements

Without prejudice to the obligations set forth in Section 4.02 of this Agreement and Part C of this Schedule, the Borrower shall:

1. Not later than March 31 of each Fiscal Year, prepare an annual implementation report, satisfactory to the Bank, covering the technical, financial and accounting aspects of Part A of the Project for the twelve (12) month period preceding the date of said report, said report to be included in the Annual Implementation Report to be prepared by DRCR pursuant to Part A.3(a) of this Schedule.

2. Not later than ninety (90) days following the twelve (12) months period commencing at the Effectiveness Date and, thereafter, for every subsequent twelve (12) month period until completion of the Project, submit to the Bank, for its review and approval, with progress reports prepared in accordance with environmental indicators set forth in the environmental assessment procedures included in the EMP.

3. Not later than March 31 of each Fiscal Year during the implementation of the Project, in consultation with DRCR, submit to the Bank, for its review and assessment, an Annual Report, satisfactory to the Bank, in accordance with the format included in the Project Implementation Plan: (a) describing progress achieved in the implementation of the Annual Work Plan approved for said Fiscal Year and evidencing compliance by the Borrower with the monitoring and performance indicators agreed between the Bank and the Borrower; and (b) detailing the budgetary allocations for the following Fiscal Year as shall be necessary to ensure adequate financing and proper implementation of said year's Annual Work Plan including: (i) confirmation that said Plan (A) is technically and financially viable; (B) includes the economic rate of return or the cost effectiveness indicator; and (C) complies with the EMP, including the environmental assessment procedures, and with the Land Acquisition and Resettlement Policy Framework; (ii) results on the use of the environmental assessment procedures included in the EMP and the Land Acquisition and Resettlement Policy Framework, including, where appropriate, a copy of the applicable environmental assessment study and the land acquisition plan; and (iii) confirmation that: (A) the rural roads retained for rehabilitation and construction have been selected within the Program and in accordance with the participatory process described in the Project Implementation Plan; and (B) the rehabilitation and construction of the rural roads referred to in the preceding sub-section (A) comply with the Regional Framework Agreements and Specific Provincial Agreements relevant to said roads.

4. Not later than March 31 of each Fiscal Year during the implementation of the Project, in consultation with DRCR, submit to the Bank an Annual Work Plan, satisfactory to the Bank, in accordance with the format included in the Project Implementation Plan, setting forth, *inter alia*, work programs, budgets, the Annual Allocation, the Procurement Plan and the monitoring and performance indicators agreed between the Bank and the Borrower for the following Fiscal Year.

C. Mid-Term Review

Without prejudice to the provisions of Section 4.02 of this Agreement and Part B of this Schedule, the Borrower, jointly with DRCR, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of Part A of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 2009, 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 period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by September 30, 2009, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.