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LOAN NUMBER 7157-AR

Loan Agreement

(Social Protection VI Project - JEFES DE HOGAR)

between

ARGENTINE REPUBLIC

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated January 29, 2003

LOAN NUMBER 7157-AR

LOAN AGREEMENT

AGREEMENT, dated January 29, 2003, between the ARGENTINE REPUBLIC (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, constitute an integral part of this Agreement.

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 and the following additional terms have the following meanings:

(a) "*Arg*$" means Argentine Peso, the lawful currency of the Borrower;

(b) "EPH" means *Encuesta Permanente de Hogares*, a biannual national household survey carried out by the Borrower;

(c) "FMR" means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

(d) "JEFES DE HOGAR Program" means the Borrower's program established pursuant to Presidential Decree No. 565, dated April 3, 2002;

(e) "Lecops" means the bonds (*letras de cancelación de obligaciones provinciales*) issued pursuant to the Borrower's Presidential Decree No. 1004/01 of August 9, 2001;

(f) "Ministry of Labor" means the Borrower's *Ministerio de Trabajo, Empleo y Seguridad Social;*

(g) "Monitoring Indicators" means the indicators set forth in the letter of even date with this Agreement between the Borrower and the Bank;

(h) "Operational Manual" means the manual referred to in Section 3.06 of this Agreement;

(i) "PMU" means the unit referred to in Section 3.04 of this Agreement;

(j) "Remuneration for Temporary Workers" means the remuneration for temporary employment provided in accordance with the provisions of the Operational Manual to Temporary Workers (as hereinafter defined) under the JEFES DE HOGAR Program, subject to the limitation set forth in Section 3.05 of this Agreement;

(k) "SE" means *Secretaría* de *Empleo*, the Borrower's Secretariat of Employment within the Ministry of Labor (as hereinafter defined);

(l) "Selected Municipalities" means any of the 1,100 municipalities within the Borrower's territory which may be considered eligible to enter into a Subproject Agreement (as hereinafter defined) pursuant to the criteria set forth in the Operational Manual;

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

(n) "Subprojects" means: (i) small infrastructure projects including rehabilitation, expansion and new construction for schools, health centers, basic sanitation facilities, small roads and bridges, culverts and small canals, community kitchens, tourist centers, low-cost housing; (ii) community services, including the completion of the basic education cycle; and (iii) productive activities (those supporting increase in production or value-added for agricultural activities, such as the acquisition of crop machinery and small-scale processing equipment), eligible for financing under the JEFES DE HOGAR Program in accordance with the provisions of the Operational Manual;

(o) "Subproject Agreement" means any of the agreements referred to in Section 3.07 of this Agreement; and

(p) "Temporary Workers" means any unemployed individuals who may be considered eligible to participate under the JEFES DE HOGAR Program, pursuant to the criteria set forth in the Operational Manual.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to six hundred million Dollars ($600,000,000), 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. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan, as well as in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in *Banco de la Nación Argentina* on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be July 31, 2004 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. 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 other 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 amortization schedule set forth in 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. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each four consecutive Interest Periods shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

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 carry out the Project, through SE, with due diligence and efficiency and in conformity with appropriate administrative, financial, labor and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree:

(a) procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement; and

(b) procurement of goods under Part A of the Project shall be limited to Subprojects that meet the following criteria: the Subprojects (i) are located in one of the Selected Municipalities; (ii) are of the types listed in Section 1.02 (m) of this Agreement; (iii) cost no more than $35,000 equivalent; and (iv) require the procurement of goods in an aggregate amount of less than $12,000 equivalent.

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. For the purposes of assisting SE in the overall management of the Project, the Borrower shall maintain throughout the execution of the Project, within SE, a project management unit (PMU) with functions and responsibilities acceptable to the Bank and staffed with managers and other personnel in number and with qualifications and experience acceptable to the Bank.

Section 3.05. The Borrower, through SE, shall: (a) ensure that the wage rates applicable to the services of Temporary Workers employed under the Subprojects shall not exceed *Arg*$150 per month; and (b) in close consultation with the Bank, review said amount twice a year taking into consideration data provided by the EPH, and adjust as necessary in a manner satisfactory to the Bank.

Section 3.06. (a) Without limitation of the provisions of Section 3.01 of this Agreement, the Borrower, through SE, shall carry out the Project in accordance with an operational manual, satisfactory to the Bank, which shall contain, *inter alia*: (i) the eligibility criteria, detailed rules, and procedures for the selection of Subprojects; (ii) the eligibility criteria for selecting Temporary Workers; (iii) the methodology to be used in the evaluation of the Subprojects; and (iv) mandatory safeguard policies applying to Subprojects, particularly regarding the environmental assessment that each Subproject must undergo and the safeguard and mitigation actions that shall be carried out for any such Subprojects which could have a possible negative environmental impact such as, in particular, through use of any pesticide, increased deforestation, pollution of groundwater, impacts on endangered species, increased pesticide level in food, increased soil erosion, impact on parks and protected areas, or encroachment on natural habitats.

(b) Except as the Bank shall otherwise agree, the Borrower, through SE, shall not amend, waive or fail to enforce the Operational Manual, or any provision thereof. In case of any conflict between the provisions of this Agreement and those of the Operational Manual, the provisions of this Agreement shall prevail.

Section 3.07. For the purposes of carrying out activities requiring the financing of materials under Part A of the Project, the Borrower shall:

(a) after having selected a Subproject, following the procedures established in the Operational Manual, enter into an agreement (the Subproject Agreement) with a Selected Municipality for the financing of materials required under the Subproject, in accordance with the terms and conditions set forth in the Operational Manual; and

(b) exercise its rights and carry out its obligations under any Subproject Agreement, in such manner as to protect the interests of the Borrower and the Bank and

to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, shall not assign, amend, abrogate, waive or fail to enforce any Subproject Agreement, or any provision thereof.

Section 3.08. The Borrower, through the PMU, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis the implementation of the Project and the achievement of the objectives thereof, all in a manner satisfactory to the Bank and taking into account the Monitoring Indicators;

(b) by August 15 and February 15 of each year during the execution of the Project, furnish to the Bank a semi-annual report, of such scope and in such detail as the Bank shall request, and based on the monitoring and evaluation carried out pursuant to paragraph (a) of this Section, on the progress of the Project during the six-month period preceding the date of such report;

(c) include in the progress report to be furnished to the Bank by February 15, 2003 pursuant to paragraph (b) of this Section, a report on the progress achieved in the carrying out of the Project since its beginning and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of its objectives; and

(d) review with the Bank, by June 30, 2003 or such later date as the Bank may request, the progress report referred to in paragraph (c) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of its objectives, based on the conclusions and recommendations of said report and the Bank's views on the matter.

Section 3.09. The Borrower shall update the existing information system within SE, in a manner satisfactory to the Bank, said information system to include a registry of the Temporary Workers employed under the JEFES DE HOGAR Program, as to ensure that each Temporary Worker meets the eligibility criteria set forth in the Operational Manual, and is linked with the activities performed by said Temporary Worker under a specific Subproject.

Section 3.10. The Borrower shall conduct a mid-term review with the Bank, by not later than: (i) June 30, 2003; or (ii) 30 days after withdrawals from the Loan Account have reached fifty percent (50%) of the amount of the Loan, whichever occurs first, of the progress of the Project, based on an assessment with terms of reference acceptable to the Bank, as well as the reports referred to in Section 3.08 of this Agreement.

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 a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, 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 statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.08 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 quarter 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 quarter; 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

Effective Date. Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the information system referred to in Section 3.09 of this Agreement has been updated in manner satisfactory to the Bank.

Section 5.02. The date of April 29, 2003 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Economy of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Economía
Hipólito Yrigoyen 250
C1109ADA, Buenos Aires
Argentina

Cable address:	Telex:	Facsimile:
MINISTERIO DE ECONOMIA Baires	121942-AR	(5411)

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 Buenos Aires, Argentine Republic, as of the day and year first above written.

ARGENTINE REPUBLIC

By /s/ Roberto Lavagna
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ David de Ferranti
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Consultants' services	14,500,000	100% of foreign expenditures and 95% of local expenditures
(2) Office equipment and supplies	1,000,000	100% of foreign expenditures and 50% of local expenditures.
(3) Goods and services for Subprojects:		
(a) Remuneration for Temporary Workers	478,500,000	90%
(b) Goods for Subprojects (excluding food):		
(i) located in Selected Municipalities with population below 100,000 inhabitants	60,000,000	50%
(ii) located in Selected Municipalities with population below 50,000 inhabitants (not covered by Sub-category (b) (i) above)	40,000,000	80%

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(4) Premia for Interest Rate Caps and Interest Rate Collars	-0-	Amount due under Section 2.09 (c) of this Agreement
(5) Front-end fee	6,000,000	Amount due under Section 2.04 of the Loan Agreement
TOTAL	600,000,000	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding $120,000,000 may be made on account of payments made for expenditures before that date but after July 1, 2002, but not earlier than twelve months prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) Remuneration for Temporary Workers under Part A of the Project; (b) goods estimated to cost $100,000 equivalent or less per contract; (c) goods under contracts to be procured in accordance with the provisions of Part B.1 of Section I of Schedule 4 to this Agreement, except for the first two of such contracts; (d) consulting firms under contracts costing less than $100,000 equivalent; and (e) individual consultants under contracts costing less than $50,000 equivalent, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Bank and the Borrower shall consult on a periodic basis throughout implementation of the Project (at the request of either party), on the use, value and treatment of Lecops in the Borrower's economy. Unless the Bank otherwise notifies the Borrower (as a result of said consultations or at any other time), and notwithstanding any provision to the contrary in the Loan Agreement, the General Conditions or the Operational Manual, withdrawals from the Loan Account may be made under disbursement category (3) (a) set forth in the table in paragraph 1 of this Schedule, on account of eligible expenditures incurred by the Borrower in Lecops. Such withdrawals shall be made in Loan Currency amounts equivalent to one Arg$ per nominal one Arg$ face value of the Lecops, or in Loan Currency amounts calculated by applying any other Arg$ to Lecops face value rate as the Bank may reasonably determine. The Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn from the Loan Account Arg$ as shall be required to meet incurred eligible expenditures to be financed out of the proceeds of the Loan.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce poverty and to improve economic and social infrastructure facilities and services in the Borrower's territory, through the support of the JEFES DE HOGAR Program, a social safety net self-targeted to poor households.

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

Part A: JEFES DE HOGAR Program

Execution of Subprojects.

Part B: Project Administration

Strengthening the capacity of the Ministry of Labor carry out the JEFES DE HOGAR Program through the provision of technical assistance, necessary goods and operational expenses.

Part C: Monitoring and Evaluation

Strengthening the capacity of SE to monitor and evaluate the Project and related programs through the provision of specialized technical assistance.

Part D: Supervision

Carrying out the supervision of the implementation of the JEFES DE HOGAR Program at the municipal level.

* * *

The Project is expected to be completed by January 31, 2004.

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.

Payment Date	(Installment Share Expressed as a %)
April 15, 2008	4.08%
October 15, 2008	4.22%
April 15, 2009	4.37%
October 15, 2009	4.53%
April 15, 2010	4.68%
October 15, 2010	4.85%
April 15, 2011	5.02%
October 15, 2011	5.19%
April 15, 2012	5.37%
October 15, 2012	5.56%
April 15, 2013	5.76%
October 15, 2013	5.96%
April 15, 2014	6.17%
October 15, 2014	6.38%
April 15, 2015	6.61%
October 15, 2015	6.84%
April 15, 2016	7.08%
October 15, 2016	7.33%

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 subparagraph (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 subparagraph 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. Procurement of Goods and Works

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than $350,000 equivalent per contract, but more than $100,000 equivalent per contract, up to an aggregate amount not to exceed $500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Shopping

Goods estimated to cost the equivalent of $100,000 or less per contract, but more than $5,000 equivalent per contract, up to an aggregate amount not to exceed $90,500,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods costing the equivalent of $5,000 or less, up to an aggregate amount not to exceed of $10,000,000, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to the first two contracts or bid packages for goods procured under Part B.1 of this Section,

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services under Part B of the Project, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services under Part B of the Project, estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph:

(a) Contracts with a total duration of six months or more shall be advertised in accordance with the provisions of paragraph 2.5 of the Consultant Guidelines.

(b) Except as the Bank shall otherwise agree, the Borrower shall not cancel, waive or fail to enforce any contract procured under this Part C.2.

Part D: Employment of Temporary Workers under Subprojects.

Procurement of the services of Temporary Workers under Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of the Operational Manual.

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

1. Selection Planning

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

2. Prior Review

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

(b) With respect to each contract for the employment of consulting firms estimated to cost $100,000 or less, the terms of reference shall be furnished to the Bank for its prior review and approval and the contract shall be awarded only after said approval shall have been given.

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

3. Post Review

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures 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 allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means the amount of $60,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the

Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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 allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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