

CONFORMED COPY

LOAN NUMBER 7109 - PA

Loan Agreement

(Pilot Community Development Project)

between

Republic of Paraguay

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 14, 2002

LOAN NUMBER 7109 - PA

LOAN AGREEMENT

AGREEMENT, dated May 14, 2002, between REPUBLIC OF PARAGUAY (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 it 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 (the General Conditions) 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 forth and the following additional terms have the following meanings:

(a) “Annual Action Plan” means any of the plans referred to in Section 3.04 (a) and/or (c) of this Agreement;

(b) “BCP” means the Borrower’s Central Bank (*Banco Central del Paraguay*);

(c) “Financial Monitoring Letter” means the letter of even date herewith from the Bank to the Borrower setting forth the guidelines for the preparation and submission of financial monitoring reports (as hereinafter defined);

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

(e) “FY” means the Borrower’s fiscal year commencing on January 1 and ending on December 31;

(f) “Guaraní or G\$” means the lawful currency of the Borrower;

(g) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank setting forth the Project monitoring indicators;

(h) “Model Forms” means the set of model draft agreements satisfactory to the Bank, including standard drafts of Subproject Agreements (as hereinafter defined) set forth in the Operational Manual (as hereinafter defined);

(i) “Operational Manual” means the manual referred to in Section 3.03 (a) of this Agreement;

(j) “Participating Organization” means a private entity vested with legal personality which has the capacity to carry out all or part of one or more Subprojects (as hereinafter defined) to be included in a given Annual Action Plan;

(k) “PCU” means the unit referred to in Section 3.06 (a) of this Agreement;

(l) “SAS” means the Borrower’s Social Action Secretariat (*Secretaría de Acción Social*), created by Decree Number 9235, dated June 8, 1995, or any successor thereto;

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

(n) “Subproject” means any of the projects referred to in Part A of the Project;

(o) “Subproject Agreement” means any of the agreements referred to in Section 3.05 (a) (i) of this Agreement; and

(p) “Subproject Grant” means each of the grants to be awarded by SAS to a Participating Organization under the relevant Subproject Agreement, for the execution of the relevant Subproject.

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 nine million Dollars (\$9,000,000), 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, works, and services required for the Project and to be financed out of the proceeds of the Loan, and in respect of any premium with regard to an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars a separate special account (the Special Account) in BCP on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2006 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. Such fee shall be payable not later than thirty days (30) after the Effective Date.

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, commitment and other charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

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

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

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

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

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 SAS, with the assistance of the Participating Organizations, with due diligence and efficiency and in conformity with appropriate administrative, agricultural, cultural, educational, environmental, financial, managerial, social, and technical 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, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. (a) The Borrower shall carry out the Project in accordance with a manual (the Operational Manual), acceptable to the Bank, said manual to include, *inter alia*:

- (i) an institutional implementation plan of SAS for the management of the Project (including, *inter alia*, allocation of responsibilities within staff, yearly planning of activities and budget and time allocation for those activities);
- (ii) the procurement, financial management, project implementation plans and environmental guidelines to be followed during Project implementation by the Borrower and the Participating Organizations;
- (iii) the guidelines for the preparation of the Annual Action Plans;
- (iv) the criteria and procedures for:
 - (A) the selection of Participating Organizations to receive Subproject Grants;
 - (B) the preparation, review, approval and implementation of Subprojects (including, *inter alia*, the appropriate environmental requirements, a suggested list of possible activities to be carried out under Subprojects and a negative list of activities that cannot be carried out under Subprojects);
 - (C) the financial management procedures applicable to the Subprojects; and
 - (D) the procurement and contracting procedures applicable to goods, works and consultant's services procured by the Participating Organizations under Subprojects; and
- (v) the Model Forms of the Subproject Agreements.

(b) Except as the Borrower, through SAS, and the Bank may otherwise agree in writing, the Borrower shall not amend, suspend, abrogate, waive or otherwise fail to enforce the Operational Manual or any provision thereof.

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

Section 3.04. The Borrower shall: (a) not later than October 15 of each year during Project implementation, starting in year 2002, furnish to the Bank, for its approval, an annual action plan (the Annual Action Plan), each said plan to include, *inter alia*: (i) the Project activities to be carried out by the Borrower with the assistance of the Participating Organizations, during the calendar year following the presentation of each said plan; (ii) the procurement plan, disbursement schedule, and chart of accounts for each said calendar year; and (iii) the amount of counterpart funds needed and to be provided by the Borrower to carry out the Project during said calendar year; (b) thereafter implement each said Annual Action Plan, approved by the Bank, in

accordance with its terms; and (c) carry out the Annual Action Plan for the year 2002 as approved by the Bank prior to the date of this Agreement.

Section 3.05. (a) Upon approval of the corresponding Annual Action Plan by the Bank, the Borrower shall: (i) enter into an agreement or amend an existing agreement (the Subproject Agreement) with each relevant Participating Organization, on terms and conditions satisfactory to the Bank, including, *inter alia*, the obligation of each said Participating Organization to assist the Borrower in the implementation of the corresponding Annual Action Plan and to follow the provisions of the Operational Manual; and (ii) cause each relevant Participating Organization to carry out its obligations under each Subproject Agreement, respectively.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under each 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 (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Subproject Agreement or any provision thereof.

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

Section 3.06. (a) The Borrower shall establish, and thereafter operate and maintain within SAS, at all times during Project implementation, a Project coordination unit (the PCU) with a structure, functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of the PCU to assist the Borrower in the coordination, monitoring and supervision of the Project.

(b) The Borrower shall ensure that the PCU is, at all times during Project implementation, headed by a Project coordinator and staffed with a financial director, an administrative director, a procurement specialist and other professional and administrative staff, all hired through competitive processes, with qualifications and experience acceptable to the Bank. Turnover of PCU staff shall be duly justified by the Borrower, through SAS, and said justification shall be satisfactory to the Bank.

Section 3.07. The Borrower shall:

(a) maintain or cause to be maintained policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter and the data produced by the monitoring and evaluation program referred to in Part C.3 of the Project, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, each December 31 and June 30 during Project implementation, starting with the report due not later than December 31, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar semester preceding the date of presentation of the report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the following calendar semester;

(c) review with the Bank, within sixty days (60) of receipt of such report, or such later date as the Borrower and the Bank shall agree, the pertinent reports 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 objective thereof, based on the conclusions and recommendations of said reports and the Bank's views on the matter;

(d) employ independent auditors, under terms of reference satisfactory to the Bank, to monitor the eligibility of Participating Organizations and compliance with the requirements of the Operational Manual in respect of Subproject Grants;

(e) provide to the Bank for its review, the first three urban and the first three rural subprojects to be approved each calendar year during Project implementation; and

(f) carry out an in-depth review (the Mid-Term Review) jointly with the Bank, by December 31, 2004, or such later date as the Bank shall agree, on the progress achieved in the implementation of the Project.

Section 3.08. Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall include in each proposed annual budget to its legislature, and make available each year of Project implementation, promptly as needed, in Guaraníes, the minimum amounts set forth in Section 3.04 (a) (iii) of this Agreement, as counterpart funds for the carrying out of the Project.

Section 3.09. 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 sustainability of the Project; 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 within the PCU 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 of the Borrower's fiscal years 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 four (4) months after the end of each such 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 financial statements, records and accounts and the report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning 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 3.07 of this Agreement, the Borrower shall prepare in accordance with the guidelines set forth in the Financial Monitoring Letter and furnish to the Bank a Financial Monitoring Report (FMR), 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

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Participating Organization will be able to perform its obligations under the corresponding Subproject Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) the Borrower shall have adopted the Operational Manual in a manner satisfactory to the Bank;
- (b) the independent auditors referred to in Sections 3.07 (d) and 4.01 (b) (i) of this Agreement have been appointed by the Borrower as provided in said Sections; and
- (c) the PCU has been fully staffed and is operational.

Section 6.02. The date August 12, 2002 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance
(*Ministerio de Hacienda*)
Chile 128 casi Palma
Asunción, Paraguay

Facsimile: 59521-448-283

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 Asunción, Paraguay, as of the day and year first above written.

REPUBLIC OF PARAGUAY

By /s/ James Spalding Helmers

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Myrna Alexander

Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods (except as covered in Categories (3), (4) and (5) below)	95,000	100% of foreign expenditures and 90% of local expenditures
(2) Consultants' services (except as covered by Categories (4) and (5) below)	1,900,000	90%
(3) Training	340,000	90%
(4) Goods, works and services financed by Subproject Grants	5,650,000	90% of amounts disbursed by SAS under Subproject Grants
(5) Operating Costs (including operational and financial audits)	65,000	50%
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (d) of this Agreement
(7) Unallocated	950,000	
TOTAL	<u>9,000,000</u>	

2. For the purposes of this Schedule:

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

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

(c) the term “Training” means expenditures (other than those for consultants’ services) incurred by the Borrower to finance transportation costs and per-diem of trainees and rental of training facilities and equipment under the Project; and

(d) the term “Operating Costs” means reasonable Borrower expenditures, which would not have been incurred absent the Project, to finance consumable items and utilities.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments for expenditures prior to the date of this Agreement. Furthermore, no withdrawals shall be made in respect of payments for expenditures until the fee referred to in Section 2.04 of this Agreement has been paid by the Borrower to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures: (a) under contracts for goods costing less than \$50,000 equivalent each; (b) under contracts for the employment of consulting firms costing less than \$100,000 equivalent each; (c) under contracts for the employment of individual consultants costing less than \$50,000 equivalent each; and (d) for Training, under Subproject Grants and Operating Costs as set forth in Categories (3), (4) and (5) of the table in paragraph 1 of this Schedule, respectively, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in improving the quality of life and social inclusion of poor communities through: (a) supporting small income generating and community development subprojects; and (b) building capacity of beneficiary organizations to identify, design and implement these subprojects.

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: Community Development Subprojects:

1. Carrying out of demand driven income generation projects for, *inter alia*, agricultural diversification, creation of small enterprises, provision of services, processing facilities and community markets.
2. Carrying out of demand driven community development projects to complement productive investments in, *inter alia*, child care facilities, community centers and child/youth development centers.
3. Provision of technical assistance to local communities for the identification, preparation and implementation of the projects referred to in Parts A.1 and A.2 above.

Part B: Capacity Building and Institutional Development:

Strengthening of the managerial and administrative capacity of local communities and local governments to design and implement community development subprojects through, *inter alia*, the provision of training required thereof.

Part C: Project Management, Monitoring and Evaluation:

Provision of support for overall Project coordination, evaluation, supervision and implementation, including, *inter alia*:

1. (a) the strengthening of the capacity of the PCU to comply with its responsibilities referred to in Section 3.06 (a) of this Agreement; and (b) the carrying out of audits under Sections 3.07 (d) and 4.01 of this Agreement;
2. the carrying out of Project studies, including, *inter alia*, performance reviews and impact evaluations; and
3. the design and implementation of a program to monitor and evaluate the carrying out of the Project.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each May 15 and November 15	
Beginning on May 15, 2007 through May 15, 2018	4.17%
On November 15, 2018	4.09%

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

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

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

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

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

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

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works 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: International Competitive Bidding

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

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of Part B:

(a) Grouping of Contracts

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

(b) Preference for Domestically Manufactured Goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost more than \$50,000 equivalent per contract, if any, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

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

2. Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$80,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, at the Borrower's option, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$28,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under lump-sum, fixed price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines and Section 3.04 (a) (ii) of this Agreement. 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 and said Section 3.04 (a) (ii).

2. Prior Review

(a) With respect to: (i) each contract for goods to be awarded under Parts B.1; and (ii) the first two contracts to be awarded under Part C.1 (a) the procedures set forth in paragraphs

2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract for goods to be awarded under Part C.2 of this Section, the following procedures shall apply:

(i) prior to the selection of any supplier under said Part, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under said Part, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 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

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

Part C: Other Procedures for the Selection of Consultants

1. Individual Consultants

Consultants' services for specialized activities under the Project, as approved by the Bank, and for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$1,700,000 equivalent, may be procured

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

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines and Section 3.04 (a) (ii) of this Agreement. 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 and Section 3.04 (a) (ii) of this Agreement.

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 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), (3), (4), and (5) 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 \$900,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$450,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of \$1,500,000.

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

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

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

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

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

Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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.

