

CONFORMED COPY

LOAN NUMBER 7710-PY

Loan Agreement

(Water and Sanitation Sector Modernization Project)

between

REPUBLIC OF PARAGUAY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated April 27, 2009

LOAN NUMBER 7710-PY

LOAN AGREEMENT

Agreement dated April 27, 2009, between REPUBLIC OF PARAGUAY (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of sixty four million Dollars (US\$64,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.

- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07. (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 withdrawn and outstanding 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 the 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 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 for 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 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall: (a) carry out Part 1 (a), (b) and (e) of the Project through MOPC; (b) carry out Part 1 (c) of the Project through MOPC with the assistance of ERSSAN pursuant to the provisions of the ERSSAN Agreement; (c) carry out Part 1 (d) of the Project through MOPC with the assistance of SEAM pursuant to the provisions of the SEAM Arrangement; (d) carry out Part 3 (a), (d) and (e) of the Project through SENASA; (e) carry out Indigenous Community Subprojects through SENASA, with the assistance of the relevant Eligible Indigenous Community pursuant to the corresponding Indigenous Community Subproject Agreement; (f) carry out Community Subprojects through SENASA, with the assistance of the relevant Eligible Junta pursuant to the corresponding Community Subproject Agreement; and (g) cause ESSAP to carry out Part 2 of the Project pursuant to the provisions of the ESSAP Subsidiary Agreement, all in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following:

- (a) ESSAP shall have failed to comply with any of its obligations under the ESSAP Subsidiary Agreement.
- (b) ERSSAN shall have failed to comply with any of its obligations under the ERSSAN Agreement.
- (c) Law No. 1.614 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced, in such a manner so as affect materially and adversely, in the opinion of the Bank, the ability of the Borrower, through MOPC, and/or ESSAP to carry out the Project activities under their responsibility.
- (d) Law No. 3.684 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced, in such a manner so as affect materially and adversely, in the opinion of the Bank, the ability of ESSAP to carry out Part 2 the Project.

4.02. The Additional Events of Acceleration consist of the following:

- (a) The event specified in paragraphs (a) or (b) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.
- (b) Any event specified in paragraphs (c) or (d) of Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of, namely, that the ESSAP Subsidiary Agreement has been executed on behalf of the Borrower and ESSAP.

5.02. The Additional Legal Matter consists of, namely, that the ESSAP Subsidiary Agreement has been duly authorized or ratified by the Borrower and ESSAP and is legally binding upon the Borrower and ESSAP in accordance with its terms.

5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on October 14, 2010.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is its Minister of Finance.

6.02. The Borrower's Address is:
Minister of Finance
(Ministerio de Hacienda)
Chile 128
Asunción, Paraguay
Facsimile: 59521-448-283

6.03. The Bank's Address is:

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)

1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF PARAGUAY

By /s/ Dionisio Borda

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to increase the efficiency, coverage and sustainability of the water supply and sanitation services in Paraguay by: (a) improving the governance of the water and sanitation sector; (b) improving water services, and increasing access to sewerage services, in the Asunción metropolitan area; and (c) increasing access to sustainable water and sanitation services in rural areas within the Borrower's territory.

The Project consists of the following parts:

Part 1: Support to the Modernization of the Water and Sanitation Sector

- (a) Strengthening the technical capacity of WSSU to assist MOPC in: (i) the areas of sector planning and policy development; (ii) the regularization of the provision of water and sanitation services in Paraguay in accordance with the provisions of Law No. 1.614 (which shall include the provision of technical assistance to enable the Borrower, through MOPC, to sign a concession agreement as provided by article 7 of Law No. 3.684); (iii) the monitoring of the implementation of the Good Governance Strategy for the water and sanitation sector; and (iv) the monitoring of the design and implementation of the integrated information management system mentioned in paragraph (b) below.
- (b) Design and implementation of an integrated information management system for the water and sanitation sector.
- (c) Strengthening of ERSSAN's institutional and operational capacity, through, *inter alia*, the improvement of its regulating functions, through, *inter alia*: (i) the finalization and update of the mapping of water and sanitation services providers; (ii) the design and implementation of an inventory of water and sanitation services providers classified by their market segment (which inventory shall take into account the characteristics, type of service, scale and the economic/financial capacity of said providers); (iii) the establishment of obligations for the provision of water and sanitation services based on the inventory mentioned in (ii) herein; and (iv) the acquisition and utilization of the goods required therefor.
- (d) (i) Strengthening of the technical capacity of SEAM's water resources directorate, including its human resources area; (ii) the carrying out of studies, as approved by the Bank, to: (A) classify the Borrower's different water basins according to their capacity to absorb effluents (including raw sewage); (B) define quality standards according to the source (i.e. surface water, groundwater, or rainwater); and (C) identify vulnerable zones, including zones for aquifer recharge; and (iii) the strengthening of the operational capacity of SEAM's environmental licensing directorate, through, *inter alia*, the development of streamlined processes and mechanisms for the issuance of water permits and licenses.

- (e) Provision of technical assistance to MOPC to carry out the Project audit referred to in Section II.B.4 (a) (i) of Schedule 2 to this Agreement.

Part 2: Urban Water Supply and Sanitation and Institutional Strengthening of ESSAP

- (a) Strengthening of the institutional capacity of ESSAP, through, *inter alia*: (i) the improvement of its corporate governance structure, through, *inter alia*: (A) the strengthening of its Board of Directors; (B) the implementation of the provisions of the Good Governance Strategy related to ESSAP; (C) the provision of technical assistance to enter into the concession agreement mentioned in Part 1 (a) (ii) of the Project; (D) the design and implementation of a human resources plan; (E) the upgrade of ESSAP's information management system; and (F) the strengthening of its financial management, audit and procurement units; (ii) the strengthening of ESSAP's social and environmental unit (the SEU); (iii) the establishment of new service units (*Unidades de Servicios*) in accordance with criteria acceptable to the Bank; (iv) the improvement of its communications strategy; and (v) the provision of technical assistance and training, and the acquisition and utilization of the goods required therefor.
- (b) (i) Carrying out of selected investment activities to reduce non-revenue water and increase efficiency, such as the creation of district metering areas (through the installation of macro-meters, and installation of valves creating separate and independent supply zones), the optimization of energy consumption in pumping systems through better system management, the replacement of sections of leaking networks, the carrying out of leak reduction campaigns, the identification of illegal connections, and their registration thereafter, the increase of micro-metering, the replacement of existing nonfunctioning meters, the update of the users' registry (*catastro de usuarios*), and the improvement of billing and collection practices; and (ii) carrying out of selected minor rehabilitation works of existing water and sewerage systems.
- (c) Update of the Asunción Sanitation Master Plan, and thereafter once the Borrower has selected the investments included in said updated plan and to be carried out under Part 2 (e) below, carrying out of feasibility studies of said investments on terms acceptable to the Bank.
- (d) Carrying out of modeling studies of the water quality of the Paraguay River to establish the required treatment level of the wastewater.
- (e) Carrying out of selected investments on sanitation infrastructure, which may consist of, *inter alia*, the construction, rehabilitation, improvement and/or expansion of sanitation infrastructure, all as approved by the Bank.
- (f) Provision of technical assistance to ESSAP to carry out the audits referred to in Section II.B.4 (a) (ii) and II.B.5 of Schedule 2 to this Agreement.

Part 3: Rural Water Supply, Sanitation and Hygiene Education and Institutional Strengthening of SENASA

- (a) Strengthening of SENASA's institutional and technical capacity, through, *inter alia*: (i) the improvement of its technical and planning capacity; (ii) the strengthening of its regional offices; (iii) the implementation of the provisions of the Good Governance Strategy related to SENASA; (iv) the creation of an environmental unit (the EU) with a structure, functions and responsibilities acceptable to the Bank; (v) the strengthening of the operational capacity of its social unit; (vi) the strengthening of its financial management, audit and procurement units; and (vii) the provision of technical assistance and training, and the acquisition and utilization of the goods required therefor.
- (b) (i) Carrying out of demand-driven water supply and sanitation infrastructure investments/activities in selected Eligible Indigenous Communities located in the Chaco and Eastern Paraguay regions, which investments/activities consist of: (A) the construction and/or rehabilitation of about 30 water supply systems to improve supply for about 6,000 indigenous people; and (B) the construction of about 700 latrines to serve about 5,000 indigenous people; and (ii) the provision of technical assistance and/or training to said communities with respect to, *inter alia*, the operation and maintenance of said investments.
- (c) (i) Carrying out of demand-driven water supply and sanitation infrastructure investments/activities in selected communities located in rural areas (other than in communities selected under Part 3 (b) of the Project), which investments/activities consist of: (A) the construction of about 70 water supply systems; and (B) the construction of about 5,700 on-site sanitation solutions in rural communities with existing water supply systems (including the provision of technical assistance and/or training to said communities with respect to, *inter alia*, the operation and maintenance of said investments under (i) herein); and (ii) the construction and/or expansion of about 4 water supply systems in selected communities located in rural areas (other than in communities selected under Part 3 (b) and (c) (i) of the Project) that will benefit about 6,000 people.
- (d) Strengthening the operational capacity of selected Associations of Juntas.
- (e) Provision of technical assistance to SENASA to carry out the Project audit referred to in Section II.B.4 (b) of Schedule 2 to this Agreement.

SCHEDULE 2

Project Execution

Section I. Implementation and Other Arrangements

- A. The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
- B. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower, through MOPC, and through SENASA, shall carry out the Project activities under their responsibility in accordance with the provisions of the Operational Manual and the Environmental and Social Management Framework.
- (b) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower, through MOPC, shall cause ESSAP to, carry out Part 2 of the Project in accordance with the provisions of the Operational Manual and the Environmental and Social Management Framework.
- (c) In case of any conflict among the terms of the Operational Manual, the Environmental and Social Management Framework and those of this Agreement, the terms of this Agreement shall prevail.
- C. (a) Without limitation to the provisions of Section 3.01 (b) of this Agreement, and for purposes of carrying out Part 1 (c) of the Project, the Borrower, through MOPC, shall enter into an agreement (the ERSSAN Agreement) with ERSSAN under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 4 to this Agreement.
- (b) (i) The Borrower, through MOPC, shall exercise its rights and carry out its obligations under the ERSSAN 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, through MOPC, shall not assign, amend, abrogate, terminate, waive or fail to enforce the ERSSAN Agreement or any provision thereof.
- D. (a) For purposes of carrying out Part 2 of the Project, the Borrower, through MH, shall onlend a portion of the proceeds of the Loan allocated to Categories (3) and (4) (the ESSAP Loan) to ESSAP under a subsidiary agreement (the ESSAP Subsidiary Agreement) to be entered among the Borrower, through MH and MOPC, and ESSAP under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 5 to this Agreement.
- (b) (i) The Borrower, through MH and MOPC, shall exercise its rights and carry out its obligations under the ESSAP Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower, through MH and MOPC, shall not assign, amend, abrogate, terminate,

waive or fail to enforce the ESSAP Subsidiary Agreement or any provision thereof.

- E.** Without limitation to the pertinent provisions of this Agreement, and upon selection of a particular investment under Part 2 (b) and/or (e) of the Project, the Borrower, through MOPC, shall cause ESSAP to: (a) prior to the commencement of any works under said investment carry out an environmental/social screening and/or an environmental/social assessment (as the case may be) of the pertinent works under the pertinent investment, and if determined by the Bank, approve an environmental/social management plan or similar environmental/social instrument, acceptable to the Bank, for each said works under said investment (which plan or similar environmental/social instrument shall be based on the results of the environmental/social screening and/or environmental/social assessment mentioned herein, and the Bank's comments on the results of said screening and/or assessment, if any), all in accordance with the provisions of the Environmental and Social Management Framework; and (b) immediately after said approval, implement and/or cause to be implemented (as the case may be) the corresponding environmental/social management plan (or similar environmental/social instrument) in accordance with its terms.
- F.** Without limitation to the pertinent provisions of this Agreement, and if as a result of the definition of the zone of impact in respect of any given investment under Parts 2 (b) and/or (e) of the Project and/or of the carrying out of the pertinent environmental/social screening and/or environmental/social assessment (as referred to in Section I.E of this Schedule), it is determined that Resettlement will be involved in respect of any given investment, the Borrower, through MOPC, shall: (a) cause ESSAP to, prior to the carrying out of any works under the corresponding investment, prepare and furnish to the Bank, a resettlement plan (acceptable to the Bank) for each said investment (which plan shall be consistent with the provisions of the Involuntary Resettlement and Land Acquisition Policy Framework); and (b) immediately thereafter implement and/or cause ESSAP to implement each resettlement plan in accordance with its terms, and in a manner acceptable to the Bank.
- G.** Without limitation to the pertinent provisions of this Agreement, and if as a result of the carrying out of the environmental/social screening and/or environmental/social assessment referred to in I.E of this Schedule, it is determined that indigenous peoples are present in the pertinent area and/or scope of any given investment under Parts 2 (b) and/or (e) of the Project, the Borrower, through MOPC, shall: (a) cause ESSAP, to prior to the carrying out of any works/activities under the corresponding investments, prepare and furnish to the Bank an indigenous peoples plan (acceptable to the Bank) for each said investment (which plan shall be consistent with the provisions of the Indigenous Peoples Management Framework); and (b) immediately thereafter implement, and/or cause ESSAP to implement each indigenous peoples plan in accordance with its terms, and in a manner acceptable to the Bank.
- H.** (a) Upon selection by the Borrower, through SENASA, of an Indigenous Community Subproject, and prior to the carrying out of any works/activity under said Indigenous Community Subproject, the Borrower, through SENASA shall enter into an agreement (the Indigenous Community Subproject Agreement) with the pertinent Eligible Indigenous Community under terms and conditions which

shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 6 to this Agreement.

- (b) (i) The Borrower, through SENASA, shall exercise its rights and carry out its obligations under each Indigenous Community 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, through SENASA, shall not assign, amend, abrogate, terminate, waive or fail to enforce any Indigenous Community Subproject Agreement or any provision thereof.
- I.** (a) Upon selection by the Borrower, through SENASA, of a Community Subproject, and prior to the carrying out of any works/activity under said Community Subproject, the Borrower, through SENASA, shall enter into an agreement (the Community Subproject Agreement) with the pertinent Eligible Junta under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 7 to this Agreement.
 - (b) (i) The Borrower, through SENASA, shall exercise its rights and carry out its obligations under each Community 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, through SENASA, shall not assign, amend, abrogate, terminate, waive or fail to enforce any Community Subproject Agreement or any provision thereof.
- J.** Without limitation to the pertinent provisions of this Agreement, and upon selection of any given Subproject, the Borrower, through SENASA, shall: (a) prior to the commencement of any works or activities under each said Subproject carry out an environmental/social screening and/or an environmental/social assessment (as the case may be) of the pertinent works/activities under the pertinent Subproject, and if determined by the Bank, approve an environmental/social management plan or similar environmental/social instrument, acceptable to the Bank, for each said works/activities under the pertinent Subproject (which plan or similar environmental/social instrument shall be based on the results of the environmental/social screening and/or environmental/social assessment mentioned herein, and the Bank's comments on the results of said screening and/or assessment, if any), all in accordance with the provisions of the Environmental and Social Management Framework; and (b) immediately after said approval, implement and/or cause the pertinent Eligible Indigenous Community and/or the pertinent Eligible Junta to implement (as the case may be) the corresponding environmental/social management plan (or similar environmental/social instrument) in accordance with its terms.
- K.** Without limitation to the pertinent provisions of this Agreement, and if as a result of the definition of the zone of impact in respect of any given Subproject and/or of the carrying out of the pertinent environmental/social screening and/or environmental/social assessment (as referred to in Section I.J of this Schedule), it is determined that Resettlement will be involved in respect of any given Subproject, the Borrower, through SENASA, shall: (a) prior to the carrying out of any works/activities under the corresponding Subproject, prepare and furnish to the Bank, a resettlement plan

- (acceptable to the Bank) for each said Subproject (which plan shall be consistent with the provisions of the Involuntary Resettlement and Land Acquisition Policy Framework); and (b) immediately thereafter implement and/or cause to be implemented each resettlement plan in accordance with its terms, and in a manner acceptable to the Bank.
- L.** Without limitation to the pertinent provisions of this Agreement, and upon the selection of an Indigenous Community Subproject, the Borrower, through SENASA, shall: (a) prior to the carrying out of any works/activities under the corresponding Indigenous Community Subproject, prepare and furnish to the Bank an indigenous peoples plan (acceptable to the Bank) for each said Eligible Indigenous Community Subproject (which plan shall be consistent with the provisions of the Indigenous Peoples Management Framework); and (b) immediately thereafter implement and/or cause to be implemented each indigenous peoples plan in accordance with its terms, and in a manner acceptable to the Bank.
- M.** Without limitation to the pertinent provisions of this Agreement, and if as a result of the carrying out of the environmental/social screening and/or environmental/social assessment referred to in I.J of this Schedule, it is determined that indigenous peoples are present in the pertinent area and/or scope of any given Community Subproject, the Borrower, through SENASA, shall: (a) prior to the carrying out of any works/activities under the corresponding Community Subproject, prepare and furnish to the Bank an indigenous peoples plan (acceptable to the Bank) for each said Subproject (which plan shall be consistent with the provisions of the Indigenous Peoples Management Framework); and (b) immediately thereafter implement and/or cause to be implemented each indigenous peoples plan in accordance with its terms, and in a manner acceptable to the Bank.
- N.**
- (a) The Borrower, through MOPC, shall cause ESSAP to operate and maintain, at all times during Project implementation, the SEU with a structure, functions and responsibilities acceptable to the Bank.
 - (b) The Borrower, through MOPC, shall cause ESSAP to ensure that the SEU is, at all times during Project implementation, headed by a coordinator and assisted by professional staff (including, *inter alia*, an environmental specialist, and a social specialist) and administrative staff, all in numbers and with terms of reference, and qualifications and experience acceptable to the Bank.
- O.**
- (a) The Borrower, through SENASA, shall establish, and thereafter operate and maintain, at all times during Project implementation, the EU with a structure, functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of the EU to assist SENASA in complying with its environmental obligations under the Project.
 - (b) The Borrower, through SENASA, shall ensure that the EU is, at all times during Project implementation, headed by a coordinator and assisted by professional staff (including, *inter alia*, an environmental specialist) and administrative staff, all in numbers and with terms of reference, and qualifications and experience acceptable to the Bank, and hired in accordance with competitive procedures acceptable to the Bank.

- P.** The Borrower shall, prior to the commencement of each calendar year during Project implementation, create, and thereafter maintain throughout each said calendar year of Project implementation, a specific budget line entry in the relevant annual Borrower budget for MOPC and MSPBS in order to keep track of the corresponding expenditures incurred during Project implementation.
- Q.** The Borrower, through, MOPC, and through SENASA, shall, not later than one year after the Effective Date, establish, and thereafter operate and maintain, at all times during Project implementation: (a) a separate section, within MOPC and SENASA's web pages, for purposes of disseminating Project information to stakeholders in respect of the Project activities under their responsibility; (b) a digital filing system within MOPC and SENASA for purposes of storing documentation related to the Project's procurement process and contract management (such as, payment certificates, invoices, receipts, and contract guarantees) in respect of the Project activities under their responsibility; and (c) a separate integrated management information system within MOPC and SENASA in respect of the Project activities under their responsibility, all on terms and in a manner acceptable to the Bank.
- R.** The Borrower, through MOPC, shall cause ESSAP to, not later than one year after the Effective Date, establish, and thereafter operate and maintain, at all times during Project implementation: (i) a separate section, within ESSAP's web page, for purposes of disseminating Project information to stakeholders in respect of the Project activities under its responsibility; (ii) a digital filing system for purposes of storing documentation related to the Project's procurement process and contract management (such as, payment certificates, invoices, receipts, and contract guarantees) in respect of the Project activities under its responsibility; and (iii) an integrated management information system in respect of the Project activities under its responsibility, all on terms and in a manner acceptable to the Bank.
- S.** The Borrower, through MOPC, shall cause ESSAP to, prior to the commencement of the procurement process in respect of any of the Project activities under Part 2 (e) of the Project, hire a procurement specialist with terms of reference, and qualifications and experience acceptable to the Bank, and in accordance with competitive procedures acceptable to the Bank.
- T.** (a) The Borrower, through MOPC, shall cause ERSSAN to, not later than one year after the Effective Date, establish, and thereafter operate and maintain, at all times during Project implementation, a separate section, within ERSSAN's web page, for purposes of disseminating Project information to stakeholders in respect of Part 1 (c) of the Project.
- (b) The Borrower, through MOPC, with the assistance of SEAM, shall, not later than one year after the Effective Date, establish, and thereafter operate and maintain, at all times during Project implementation, a separate section, within SEAM's web page, for purposes of disseminating Project information to stakeholders in respect of Part 1 (d) of the Project.

- U. The Borrower, through MOPC, shall cause ERSSAN and ESSAP to undertake, at all times during Project implementation, all necessary actions to provide the required information to MOPC to enable the same to implement the integrated information management system referred to in Part 1 (b) of the Project.
- V. The Borrower, through SENASA, and through SEAM, shall undertake, at all times during Project implementation, all necessary actions to provide the required information to MOPC to enable the same to implement the integrated information management system referred to in Part 1 (b) of the Project.
- W. Prior to carrying out Part 1 (d) of the Project, the Borrower, through MOPC, shall enter into an arrangement (the SEAM Arrangement) with SEAM, on terms and conditions acceptable to the Bank, which shall include, *inter alia*, the obligation of SEAM to provide the technical and logistics support to MOPC so as to enable the Borrower, through MOPC to comply with its obligations under this Agreement in respect of said Part of the Project.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

- 1. (a) The Borrower, through MOPC, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of Project indicators set forth in the Operational Manual. Each Project Report shall cover the period of one calendar semester, (starting with the calendar semester in which the Effective Date falls) and shall be furnished to the Bank not later than sixty calendar days after the end of the period covered by each such report.
- (b) Without limitation to the provisions of Section II.A.1 (a) of this Schedule, the Borrower, through MOPC shall prepare results-based monitoring and evaluation reports in respect of Part 1 of the Project. Each such report shall cover the period of one calendar year (starting with the calendar year 2010), and all shall be furnished to the Bank (including the reports mentioned in (c) below) not later than forty five calendar days after the end of the period covered by each such report.
- (c) Without limitation to the provisions of Section II.A.1 (a) of this Schedule: (i) the Borrower, through MOPC shall cause ESSAP to, not later than thirty calendar days after the end of each annual year (starting with the calendar year 2010), prepare and furnish to MOPC the results-based monitoring and evaluation reports in respect of Part 2 of the Project; and (ii) the Borrower, through SENASA, shall, not later than thirty calendar days after the end of each annual year, prepare and furnish to MOPC the results-based monitoring and evaluation reports in respect of Part 3 of the Project, all reports covering the period of one calendar year, in form and substance satisfactory to the Bank, so that MOPC may be able to comply with its obligation set forth in Section II.A.1 (b) of this Schedule.

2. For purposes of Section 5.08 (b) of the General Conditions, the Borrower, through MOPC, shall, not later than August 31, 2011 exchange views with the Bank, ERSSAN, ESSAP, and SEAM (the mid-term review) on the execution of the Project, and the pertinent Project Reports and the reports mentioned in Section II.A.1 (b) of this Schedule, covering the last two calendar semesters preceding the date of said mid-term review.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation to the provisions of Part A of this Section: (a) the Borrower, through MOPC, shall cause ESSAP to, not later than thirty calendar days after the end of each calendar semester (starting with the calendar semester in which the Effective Date falls), prepare and furnish to MOPC interim unaudited financial reports for Part 2 of the Project; and (b) the Borrower, through SENASA, shall not later than thirty calendar days after the end of each calendar semester (starting with the calendar semester in which the Effective Date falls), prepare and furnish to MOPC interim unaudited financial reports for Part 3 of the Project, both covering each calendar semester, in form and substance satisfactory to the Bank, so that the same may be included by MOPC in the Project Reports mentioned in Section II.A.1 of this Schedule.
3. Without limitation to the provisions of Part A of this Section, the Borrower, through MOPC, shall: (a) not later than thirty calendar days after the end of each calendar semester (starting with the calendar semester in which the Effective Date falls), prepare the interim unaudited financial reports for Part 1 of the Project; and (b) thereafter, as part of the Project Reports mentioned in Section II.A.1 of this Schedule, furnish to the Bank the interim unaudited financial reports mentioned in (a) herein, and in Part B.2 of this Section, all covering each calendar semester, in form and substance satisfactory to the Bank.
4. (a) The Borrower, through MOPC, shall: (i) have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions in respect of Part 1 of the Project; and (ii) cause ESSAP to have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements in respect of the Borrower, through MOPC, and ESSAP shall cover the period of one fiscal year of the Borrower. Said audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

(b) The Borrower, through SENASA, shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions in respect of Part 3 of the Project. Each audit of the Financial Statements in respect of the Borrower, through SENASA, shall cover the period of one fiscal year of the Borrower. Said audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period
5. Without limitation to the provisions of Section II.B.4 (a) (ii) of this Schedule, the Borrower, through MOPC, shall cause ESSAP to: (a) not later than sixty days after the

Asunción Sanitation Master Plan has been updated as provided in Part 2 (c) of the Project, hire a technical auditor acceptable to the Bank to carry out calendar quarterly concurrent technical audits of Part 2 (e) of the Project during Project implementation (starting with the calendar quarter in which the first works under Part 2 (e) had been selected), all in accordance with terms of reference acceptable to the Bank (which terms of reference shall provide for, *inter alia*, the audit of: (i) the eligibility/selection criteria of the works under said Part of the Project; (ii) the administration of the pertinent contract for said works; and (iii) the supervision of the same; and (b) not later than forty five days after the end of each calendar quarter, furnish to the Bank the pertinent calendar quarterly audit report on terms acceptable to the Bank, and any other information concerning said audited documentation and such auditors, as the Bank may from time to time reasonably request.

Section III. Procurement

A. General

1. **Goods, works and Non-Consultant Services.** All goods, works and Non-Consultant Services required for the Project and to be financed out of the proceeds of the Loan shall be procured, and/or cause to be procured, in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured, and/or cause to be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.
4. **Special Provisions.** Without limitation to the provisions in Section III A.1 and 2 of this Schedule, the following additional provisions shall also govern the procurement of goods, works, Non-Consultant Services and consultants' services under the Project, as applicable:
 - (a) procurement of goods, works, Non-Consultant Services and consultants' services (in respect of firms) shall be carried out using: (i) standard bidding documents, and standard requests for quotations/proposals (as the case may be), which shall all include, *inter alia*, a settlement of dispute provision; (ii) model bid evaluation forms, and model quotations/proposals evaluation forms (as the case may be); and (iii) model contract forms, all acceptable to the Bank;
 - (b) foreign bidders or consultants (as the case may be) shall not, as a condition for submitting bids or proposals and/or for contract award: (i) be required to be registered in Paraguay; (ii) have a representative in Paraguay; (iii) be associated

or subcontract with Paraguayan suppliers, contractors or consultants; and (iv) be required to furnish evidence to the Borrower that they have purchased the pertinent standard bidding documents;

- (c) without limitation to the provisions of paragraph (a) above: (i) standard bidding documents for the procurement of goods, works and Non-Consultant Services under International Competitive Bidding procedures shall stipulate that the period for submitting bids shall be at least 45 calendar days from the date of notification and advertising of the Specific Procurement Notice as referred to in paragraph 2.8 of the Procurement Guidelines; (ii) standard bidding documents for the procurement of goods, works and Non-Consultant Services under National Competitive Bidding procedures which: (A) goods, works and Non-Consultant Services are estimated to cost \$100,000 equivalent or more per contract, shall stipulate that the period for submitting bids shall be at least 30 calendar days from the date of notification and advertising of the specific procurement notice; and (B) goods, works and Non-Consultant Services are estimated to cost less than \$100,000 equivalent per contract, shall stipulate that the period for submitting bids shall be at least 20 calendar days from the date of notification and advertising of the specific procurement notice; and (iii) standard requests for quotations for the procurement of goods, works and Non-Consultant Services under Shopping procedures shall stipulate that the period for submitting quotations shall be at least 10 calendar days from the date of notification and advertising of the specific procurement notice;
- (d) (i) the Borrower, through MOPC, and through SENASA, shall: (A) supply the SEPA with the information contained in the initial Procurement Plan within 30 days after such plan has been approved by the Bank, in respect of the Parts of the Project under their responsibility; and (B) update the Procurement Plan at least biannually, or as required by the Bank, to reflect the actual project implementation needs and progress and shall supply the SEPA with the information contained in the updated Procurement Plan immediately thereafter; and (ii) the Borrower, through MOPC, shall cause ESSAP to: (A) supply the SEPA with the information contained in the initial Procurement Plan within 30 days after such plan has been approved by the Bank, in respect of Part 2 of the Project; and (B) update the Procurement Plan at least biannually, or as required by the Bank, to reflect the actual project implementation needs and progress and shall supply the SEPA with the information contained in the updated Procurement Plan immediately thereafter;
- (e) contracts of goods, works and Non-Consultant Services shall not be awarded to the “most convenient” bid, but rather to the bidder whose bid has been determined: (i) to be substantially responsive; and (ii) to offer the lowest evaluated bid, provided that said bidder has demonstrated to the Borrower, through MOPC and/or through SENASA, and/or to ESSAP (as the case may be) to be qualified to perform the contract satisfactorily; and
- (f) consultants shall not be required to submit bid or performance securities.

B. Particular Methods of Procurement of Goods, Works and Non-Consultant Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and Non-Consultant Services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods, Works and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and Non-Consultant Services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Least Cost-based Selection
(b) Single Source Selection
(c) Quality-Based Selection
(d) Selection Based on the Consultants' Qualifications
(e) Procedures set forth in paragraphs 5.2 through 5.4 of the Consultant Guidelines for the Selection of Individual Consultants
(f) Sole Source Procedures for the Selection of Individual Consultants set forth in paragraph 5.4 of the Consultant Guidelines for the Selection of Individual Consultants

D. 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.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as

the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (excluding Taxes)
(1) Goods, consultants’ services, audits, Non-Consultant Services, Training and/or Operating Costs under Part 1 (a), (b), (d) and (e) of the Project	2,940,000	100%
(2) Goods, consultants’ services, Non-Consultant Services, Training and/or Operating Costs under Part 1 (c) of the Project	1,000,000	100%
(3) Goods and consultants’ services (in respect of consulting firms), under Part 2 (a), (b), (c) and (d) of the Project	2,000,000	40%
(4) Consultants’ services (in respect of individual consultants), audits, Non-Consultant Services, Training and/or Operating Costs under Part 2 (a), (b), (c), (d) and (f) of the Project	2,000,000	100%
(5) Works under Part 2 (b) of the Project	10,000,000	80%
(6) Works under Part 2 (e) of the Project	36,400,000	80%
(7) Goods, and consultants’ services (in respect of consulting firms) under Part 3 (a) and (d) of the Project	1,500,000	40%
(8) Works, goods, consultants’ services and/or Training under Subprojects	7,600,000	80%

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (excluding Taxes)
(9) Consultants' services (in respect of individual consultants), audits, Non-Consultant Services, Training and/or Operating Costs under Part 3 (a), (d) and (e) of the Project	400,000	100%
(10) Front-end Fee	160,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(11) Premia for Interest Rate Caps and Interest Collars	0	Amounts payable pursuant to Section 2.07 (c) of this Agreement
TOTAL AMOUNT	64,000,000	

For purposes of this table:

- (a) the term "Training" means expenditures (other than those for consultants' services) incurred by the Borrower, through MOPC, and/or through SENASA, and/or by ESSAP, all as approved by the Bank on the basis of an annual budget acceptable to the Bank, to finance reasonable transportation costs and per-diem of trainees and trainers (if applicable), training registration fees, and rental of training facilities and equipment in respect of the Project activities under their responsibility; and
- (b) the term "Operating Costs" means reasonable recurrent expenditures, based on an annual budget previously approved by the Bank, that would not have been incurred by the Borrower, through MOPC, and/or through SENASA, and/or by ESSAP, absent the Project, for Project administration costs (including office rent), operation and maintenance of office equipment, non-durable goods and salaries for civil servants assigned to carry out administrative (e.g. secretarial) responsibilities under the Project (but excluding any other type of civil servant salaries, and/or all civil servants bonuses (such as *remuneración extraordinaria*, *remuneración adicional*, *gratificaciones por resultados*, *bonificaciones por responsabilidad en el cargo* and *gastos de residencia*) to the Borrower's or ESSAP's personnel and/or to individual consultants hired under the Project).

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$12,800,000 equivalent may be made for payments made prior to this date but on or after February 2, 2009 (but in no case more than one year prior to the date of this Agreement) for Eligible Expenditures for Categories (1), (2), (3), (4), (5), (7), (8) and (9) provided that the pertinent obligations and/or conditions set forth in this Agreement, as applicable to each Project activity, have been complied with or met;
 - (b) for payments made to finance Part 1 (c) of the Project under Category (2), unless:
 - (i) the ERSSAN Agreement has been signed by the respective parties thereto; and
 - (ii) legal counsel, acceptable to the Bank, for the Borrower and ERSSAN, have each issued a legal opinion, acceptable to the Bank, indicating that the ERSSAN Agreement has been duly authorized or ratified by the Borrower and ERSSAN and that said agreement is legally binding upon the Borrower and ERSSAN in accordance with its terms;
 - (c) for payments made to finance any investment under Part 2 (e) of the Project under Category (6), unless: (i) the Asunción Sanitation Master Plan has been updated as provided under Part 2 (c) of the Project, and on terms and in a manner acceptable to the Bank; (ii) the pertinent investment has been selected by the Borrower in a manner acceptable to the Bank; (iii) the corresponding feasibility study in respect of the pertinent investment has been carried out in manner acceptable to the Bank; and (iv) ESSAP is in compliance with the provisions of the ESSAP Subsidiary Agreement; and
 - (d) for payments made to finance any Subproject under Category (8), unless the EU has been established as provided in Part 3 (a) (iv) of the Project.
2. The Closing Date is March 31, 2015.

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

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 15 and October 15 Beginning April 15, 2017 through April 15, 2035	2.63%
On October 15, 2035	2.69%

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn 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, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the 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 Withdrawn Loan Balance is 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

Terms and Conditions of the ERSSAN Agreement

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

- (a) the obligation of the Borrower, through MOPC, to: (i) carry out Part 1 (c) of the Project as provided in Section 3.01 (b) of this Agreement; and (ii) ensure that Part 1 (c) of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
- (b) the right of the Borrower, through MOPC, to take remedial actions against ERSSAN in case ERSSAN shall have failed to comply with any of its obligations under the ERSSAN Agreement (which actions shall previously be agreed with the Bank); and
- (c) the obligation of ERSSAN:
 - (i) to ensure that Part 1 (c) of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
 - (ii) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the ERSSAN Agreement or any provision thereof unless previously agreed by the Bank;
 - (iii) if applicable, to comply, or cause to be complied, with the obligations referred to in Sections 5.04, 5.05, 5.06, 5.07 and 5.10 of the General Conditions (relating to insurance, land acquisition, use of goods, works and services, and maintenance of facilities, plans, documents and records, cooperation and consultation and visits, respectively) in respect of Part 1 (c) of the Project; and
 - (iv) to take or permit to be taken all action to enable the Borrower, through MOPC, to comply with its obligations/conditions referred to in this Agreement, as applicable to the carrying out of Part 1 (c) of the Project.

SCHEDULE 5

Terms and Conditions of the ESSAP Subsidiary Agreement

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

- (a) the obligation of the Borrower: (i) through MH, to promptly disburse to ESSAP the proceeds of the ESSAP Loan as provided in this Agreement, and in a manner acceptable to the Bank; and (ii) through MOPC, to: (A) ensure that Part 2 of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines; and (B) monitor the implementation of Part 2 of the Project (including compliance by ESSAP of the pertinent obligations/conditions set forth in the ESSAP Subsidiary Agreement);
- (b) the right of the Borrower, through MH and/or through MOPC, to take remedial actions against ESSAP in case ESSAP shall have failed to comply with any of its obligations under the ESSAP Subsidiary Agreement (which actions may include, *inter alia*, the partial or total suspension and/or cancellation of the proceeds of the ESSAP Loan (as the case may be), all as previously agreed with the Bank); and
- (c) the obligation of ESSAP:
 - (i) to use the ESSAP Loan exclusively for financing of Part 2 of the Project in a manner acceptable to the Bank;
 - (ii) to provide the counterpart funds, facilities, services and other resources, necessary or appropriate to carry out Part 2 of the Project;
 - (iii) to ensure that Part 2 of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
 - (iv) to repay the proceeds of the ESSAP Loan (which ESSAP Loan shall be denominated in Dollars equivalent and carry the same interest rate applicable to the Loan pursuant to Section 2.04 of this Agreement) withdrawn by ESSAP (together with interest and other charges thereon, as applicable): (A) in the same currency in which the corresponding principal amount of the Loan and interest and other charges thereon are repaid by the Borrower to the Bank pursuant to Article III of the General Conditions; and (B) under repayment terms (including payment of interest and other charges thereon, as applicable) that shall coincide with those repayment terms set forth in this Agreement;

- (v) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the ESSAP Subsidiary Agreement or any provision thereof unless previously agreed by the Bank;
- (vi) to: (A) maintain, at all times during Project implementation, a financial management system in accordance with the provisions of Section 5.09 (a) of the General Conditions; and (B) have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank so as to enable the Borrower, through MOPC, to comply with its pertinent obligations under Section II.B.4 (a) (ii) of Schedule 2 to this Agreement;
- (vii) if applicable, to comply, or cause to be complied, with the obligations referred to in Sections 5.04, 5.05, 5.06, 5.07 and 5.10 of the General Conditions (relating to insurance, land acquisition, use of goods, works and services, operation and maintenance of facilities, plans, documents and records, cooperation and consultation and visits, respectively) in respect of Part 2 of the Project; and
- (viii) to take or permit to be taken all action to enable the Borrower, through MH and/or through MOPC, to comply with its obligations/conditions referred to in this Agreement, as applicable to the carrying out of Part 2 of the Project.

SCHEDULE 6

Each Indigenous Community Subproject Agreement shall contain, *inter alia*, the following provisions:

- (a) the obligation of the Borrower, through SENASA, to: (i) carry out Part 3 (b) of the Project as provided in Section 3.01 (e) of this Agreement; and (ii) ensure that Part 3 (b) of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
- (b) the right of the Borrower, through SENASA, to take remedial actions against the pertinent Eligible Indigenous Community in case said Eligible Indigenous Community shall have failed to comply with any of its obligations under the pertinent Indigenous Community Subproject Agreement (which actions shall previously be agreed with the Bank); and
- (c) the obligation of each Eligible Indigenous Community:
 - (i) to, except as the Bank shall otherwise agree, provide an in-kind contribution (which consist of the provision of labor) to carry out the corresponding Indigenous Community Subproject;
 - (ii) to ensure that the pertinent Indigenous Community Subproject is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
 - (iii) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Indigenous Community Subproject Agreement or any provision thereof unless previously agreed by the Bank;
 - (iv) if applicable, to comply, or cause to be complied, with the obligations referred to in Sections 5.04, 5.05, 5.06, 5.07 and 5.10 of the General Conditions (relating to insurance, land acquisition, use of goods, works and services, and operation and maintenance of facilities, plans, documents and records, cooperation and consultation and visits, respectively) in respect of the pertinent Indigenous Community Subproject; and
 - (v) to take or permit to be taken all action to enable the Borrower, through SENASA, to comply with its obligations/conditions referred to in this Agreement, as applicable to the carrying out of the pertinent Indigenous Community Subproject.

SCHEDULE 7

Each Community Subproject Agreement shall contain, *inter alia*, the following provisions:

- (a) the obligation of the Borrower, through SENASA, to: (i) carry out Part 3 (c) of the Project as provided in Section 3.01 (f) of this Agreement; and (ii) ensure that Part 3 (c) of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
- (b) the right of the Borrower, through SENASA, to take remedial actions against the pertinent Eligible Junta in case said Eligible Junta shall have failed to comply with any of its obligations under the pertinent Community Subproject Agreement (which actions shall previously be agreed with the Bank); and
- (c) the obligation of each Eligible Junta:
 - (i) to, except as the Bank shall otherwise agree, provide: (A) if applicable, a contribution of at least 10% of the total cost of the corresponding Community Subproject (as said total cost is approved by the Borrower, through SENASA, in accordance with the criteria set forth in the Operational Manual); and (B) facilities, services and other resources, necessary or appropriate to carry out the corresponding Community Subproject;
 - (ii) to ensure that the pertinent Community Subproject is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
 - (iii) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Community Subproject Agreement or any provision thereof unless previously agreed by the Bank;
 - (iv) if applicable, to comply, or cause to be complied, with the obligations referred to in Sections 5.04, 5.05, 5.06, 5.07 and 5.10 of the General Conditions (relating to insurance, land acquisition, use of goods, works and services, and operation and maintenance of facilities, plans, documents and records, cooperation and consultation and visits, respectively) in respect of the pertinent Community Subproject; and
 - (v) to take or permit to be taken all action to enable the Borrower, through SENASA, to comply with its obligations/conditions referred to in this Agreement, as applicable to the carrying out of the pertinent Community Subproject.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Association of Juntas” means a legal entity comprised of two or more *Juntas de Saneamiento* to provide technical support to the members of said association.
3. “Asuncion Sanitation Master Plan” means the 1985 sanitation master plan for the Asuncion metropolitan area.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Community Subproject” means any of the investments/activities under Part 3 (c) of the Project.
6. “Community Subproject Agreement” means any of the agreements referred to in Section I.I (a) of Schedule 2 to this Agreement.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
8. “Eligible Indigenous Community” means any indigenous community which has met the eligibility criteria set forth in the Indigenous Peoples Management Framework to be benefitted under an Indigenous Community Subproject.
9. “Eligible Junta” means any *Junta de Saneamiento* (a water and sanitation board established as a legal entity to provide water and sanitation services in the pertinent community) which has met the eligibility criteria set forth in the Operational Manual to be benefitted under a Community Subproject.
10. “Environmental and Social Management Framework” means the Borrower’s framework, dated February 2, 2009, acceptable to the Bank, which sets forth, *inter alia*: (a) the terms of reference for designing the social and environmental criteria for selecting investments for Subprojects and under Part 2 (b) and (e) of the Project; (b) the terms of reference and the guidelines for the carrying out of environmental/social screenings or environmental/social assessments in connection with the investments for Subprojects and under Part 2 (b) and (e) of the Project; (c) the generic description of the type of environmental impacts which may affect investments/Subprojects under the Project; (d) the guidelines to be followed in connection with the finding of cultural property; (e) the guidelines to be followed to prevent natural habitat conversion or degradation; (f) the Indigenous Peoples Management Framework; (g) the Involuntary Resettlement and Land Acquisition Policy Framework; and (h) the actions to mitigate any environmental negative impact as a result of the carrying out of the Project, as said framework may be amended from time to time with the agreement of the Bank.

11. “ERSSAN” means *Ente Regulador de Servicios Sanitarios*, the Borrower’s Sanitary Services Regulation Entity, created as a legal entity pursuant to the provisions of article 8 of Law No. 1.614.
12. “ERSSAN Agreement” means the agreement referred to in Section I.C (a) of Schedule 2 to this Agreement.
13. “ESSAP” means *Empresa de Servicios Sanitarios del Paraguay, S.A.*, the Borrower’s Sanitary Services Company, a legal entity subject to private law created pursuant to the Borrower’s Decree No. 16.636/02, dated March 11, 2002, which provides water supply and sanitation services in the Asuncion metropolitan area.
14. “ESSAP Loan” means a loan (out of the proceeds of the Loan) to be provided to ESSAP to carry out Part 2 of the Project.
15. “ESSAP Subsidiary Agreement” means the agreement referred to in Section I.D (a) of Schedule 2 to this Agreement.
16. “EU” means the environmental unit referred to in Part 3 (a) (iv) of the Project, or any successor thereto acceptable to the Bank.
17. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
18. “Good Governance Strategy” means the Borrower’s strategy for the water and sanitation sector (included in the Operational Manual), acceptable to the Bank, which sets forth, *inter alia*, the actions to be undertaken by MOPC, ERSSAN, ESSAP, SEAM and SENASA to improve sector governance.
19. “Indigenous Community Subproject” means any of the investments/activities under Part 3 (b) of the Project.
20. “Indigenous Community Subproject Agreement” means any of the agreements referred to in Section I.H (a) of Schedule 2 to this Agreement.
21. “Indigenous Peoples Management Framework” means the framework dated February 2, 2009, acceptable to the Bank (included in the Environmental and Social Management Framework), which framework includes, *inter alia*: (a) the principles, objectives, methodology and the contents to be included in each indigenous peoples plan cited in Section I.G, I.L and I.M of Schedule 2 to this Agreement; and (b) the criteria for selecting Eligible Indigenous Communities.
22. “Involuntary Resettlement and Land Acquisition Policy Framework” means the Borrower’s framework dated February 2, 2009, acceptable to the Bank (included in the Environmental and Social Management Framework) which sets forth, *inter alia*, the principles and objectives governing Resettlement preparation and implementation, and a

- description of the process for preparing and approving resettlement plans under Parts 2 and 3 of the Project.
23. “Law No. 1.614” means *Ley No.1.614/2000*, the Borrower’s Law No. 1.614/2000 dated November 2, 2000 (duly published in the Borrower’s official gazette on November 7, 2000) which approved the Borrower’s water and sanitation regulatory framework, and said term also includes Decree No. 18.880 (*Decreto No. 18.880*) dated October 2, 2002 (duly published in the Borrower’s official gazette on October 16, 2002) which regulates said Law, as said Law and Decree have been amended to the date of this Agreement.
 24. “Law No. No. 3.684” means *Ley No.3.684/2008*, the Borrower’s Law No. 3.684/2008 dated December 31, 2008 (duly published in the Borrower’s official gazette on January 7, 2009) which authorized the restructuring and regularization of ESSAP’s equity.
 25. “MH” means *Ministerio de Hacienda*, the Borrower’s Ministry of Finance.
 26. “MOPC” means *Ministerio de Obras Públicas y Comunicaciones*, the Borrower’s Ministry of Public Works and Communication.
 27. “MSPBS” *Ministerio de Salud Pública y de Bienestar Social*, the Borrower’s Ministry of Public Health and Social Welfare.
 28. “Non-Consultant Services” means services which will be bid and contracted on the basis of performance of measurable physical outputs.
 29. “Operational Manual” means Borrower’s manual dated February 6, 2009, acceptable to the Bank, which sets forth, *inter alia*: (a) the criteria and procedures for selecting the investments under Part 2 (b) and (e) of the Project; (b) the criteria for evaluating, selecting and approving Community Subprojects; (c) the Good Governance Strategy; (d) the structures, functions and responsibilities of the EU and SEU; (d) the Project’s chart of accounts and internal controls; (e) the format of: (A) the unaudited interim financial reports referred to in Section II. B.3 of Schedule 2 to this Agreement; (B) the Financial Statements; and (C) ESSAP’s financial statements; (f) the terms of reference for carrying out the audits under Section II.B.4 and B.5 of Schedule 2 to this Agreement; (g) the Project indicators (including the results framework); and (h) the Project disbursement and procurement procedures, as said manual may be updated and/or amended from time to time with the agreement of the Bank.
 30. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
 31. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 6, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
 32. “Resettlement” means the impact of an involuntary taking of land under the Project, which taking causes affected persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural

- and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently.
33. “SEAM” means *Secretaría del Ambiente*, the Borrower’s Secretariat of the Environment, or any successor thereto acceptable to the Bank.
 34. “SEAM Arrangement” means the arrangement referred to in Section I.W of Schedule 2 to this Agreement.
 35. “SENASA” means *Servicio Nacional de Saneamiento Ambiental*, the National Environmental Sanitation Service, established within the jurisdiction of MSPBS.
 36. “SEPA” means the Bank’s publicly accessible Procurement Plans Execution System.
 37. “SEU” means the unit referred to in Part 2 (a) (ii) of the Project, or any successor thereto acceptable to the Bank.
 38. “Subproject” means an Indigenous Community Subproject and/or a Community Subproject.
 39. “WSSU” means *Unidad de Servicios de Agua Potable y Alcantarillado Sanitario*, MOPC’s Water and Sewerage Services Unit, or any successor thereto acceptable to the Bank.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

“Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (l) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

... (l) *Ineligibility*. The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

- (b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”