

LOAN NUMBER 7242-AR

Loan Agreement

(National Highway Asset Management Project)

between

ARGENTINE REPUBLIC

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 6 , 2004

LOAN NUMBER 7242 -AR

LOAN AGREEMENT

AGREEMENT, dated December 6, 2004, between the ARGENTINE REPUBLIC (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter from the Borrower, dated May 24, 2004, describing a program designed to gradually consolidate an efficient road network management strategy and establish a steady state condition of the National Road Network (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower has requested that the Bank support the Borrower's execution of the Program through an adaptable program loan instrument which consists of two phases (to be supported by an equal number of loans over a period of approximately six years to be utilized by the Borrower in the implementation of the Program);

(C) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which Project forms part of the first phase of the Program, has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower in support of the first phase of the Program 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, with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) the text in Section 5.01 which reads “on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories: or (b)” is deleted in its entirety; and

(b) paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”

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) “CREMA Contract” means a multi-year contract under Part A of the Project, entered into by DNV (as defined below) with a private sector contractor, which contract obligates the private sector contractor to undertake all phases of road rehabilitation and maintenance work as a single package, from design and programming of the works, through the execution of such works, with respect to an identified portion of the Non-Concessioned National Road Network (as defined below);

(b) “DNV” means the Borrower’s *Dirección Nacional de Vialidad* (National Highways Directorate), an entity vested with legal personality operating under the jurisdiction of MPFIPS (as defined below), and established by the Borrower’s Decree-Law No. 505/58, dated January 16, 1958, as said Decree-Law has been amended to the date of this Agreement;

(c) “Environmental Evaluation and Management Manual” means DNV’s *Manual de Evaluación y Gestión Ambiental de Obras Viales* of July 1993;

(d) “EU” means DNV’s Environmental Unit (*División Gestión Ambiental*) established pursuant to DNV’s Resolution No. 1486/94 of August 29, 1994;

(e) “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(f) "Implementation Letter" means the letter of even date herewith from the Borrower to the Bank setting forth the list of CREMA Contracts under Parts A.1 and A.2 of the Project and the Institutional Renewal Action Plan (as defined below);

(g) "Institutional Renewal Action Plan" means DNV's action plan (acceptable to the Bank) set forth in the Implementation Letter (which plan includes a timetable for the implementation of Project activities under Part D.1 of the Project), as said plan may be amended from time to time with the agreement of the Bank;

(h) "MPFIPS" means *Ministerio de Planificación Federal, Inversión Pública y Servicios*, the Borrower's Ministry of Federal Planning, Public Investment and Services;

(i) "National Road Network" means the Argentine roads network within the jurisdiction of DNV;

(j) "Non-Concessioned National Road Network" means those portions of the Argentine paved roads network, within the jurisdiction of DNV, which are not managed by the private sector through concession arrangements;

(k) "ONC" means *Oficina Nacional de Contrataciones*, the Borrower's Office of National Procurement;

(l) "Operational Manual" means the manual referred to in Section 3.04 (a) of this Agreement, as said manual may be amended from time to time with the agreement of the Bank;

(m) "PCU" means DNV's Project Coordinating Unit (*Unidad Coordinadora del Proyecto*) referred to in Section 3.06 (a) of this Agreement;

(n) "Pesos" means the currency of the Borrower;

(o) "Procurement Plan" means the Borrower's procurement plan, dated May 24, 2004 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

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

(q) “SOP” means *Secretaria de Obras Públicas*, the Borrower’s Secretariat of Public Works;

(r) “Subsidiary Agreement” means the agreement referred to in section 3.01 (c) of this Agreement; and

(s) “Updated Environmental Evaluation and Management Manual” means the Environmental Evaluation and Management Manual (as defined above), as said manual will be updated pursuant to Section 3.05 (a) (ii) of this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to DNV.

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 two hundred million Dollars (\$200,000,000), 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 the fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

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

Section 2.03. The Closing Date shall be December 31, 2008 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

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

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

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on June 1 and December 1 in each year.

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

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and to this end, shall cause DNV (pursuant to the terms of the Subsidiary Agreement) to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, engineering, social and environmental practices, shall take and/or cause to be taken (as the case may be) all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable DNV to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project.

(b) Without limitation to the provisions of paragraph (a) above, the Borrower, through MPFIPS, shall, during Project implementation, make available to DNV promptly as needed, the amount of \$108,100,000 (in Pesos equivalent), as counterpart funds for the Project.

(c) The Borrower shall make the proceeds of the Loan (minus the amount under the Loan to be paid by the Borrower to the Bank pursuant to Section 2.04 of this Agreement) available to DNV under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and DNV, under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*:

- (i) the obligation of the Borrower to promptly provide the necessary funds to enable DNV to carry out the Project as provided in this Section; and
- (ii) the obligation of DNV:

- (A) to carry out the Project in accordance with the pertinent provisions of this Agreement;
 - (B) to comply with the obligations referred to in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project;
 - (C) to take or permit to be taken all action to enable the Borrower to comply with its obligations under Sections 3.08 (b) and 3.10 (a) of this Agreement;
 - (D) to participate in the review referred to in Section 3.10 (c) of this Agreement; and
 - (E) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Subsidiary Agreement or any provision thereof.
- (d) (i) The Borrower shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and
- (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce the Subsidiary Agreement or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A.1, A.2, B, C and D of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

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

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

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

Section 3.04. (a) Without limitation to the provisions of Section 3.01 (a) of this Agreement, the Borrower shall cause DNV to carry out the Project in accordance with a manual (the Operational Manual), acceptable to the Bank, said manual to include, *inter alia*: (i) the Project's chart of accounts and internal controls; (ii) the FMR formats; (iii) the terms of reference for carrying out the Project audits; (iv) the Project monitoring indicators; (v) the Project disbursement procedures; and (vi) the Project procurement procedures, including a price methodology whereby the price of CREMA Contracts under Parts A.1 and A.2 of the Project will be adjusted as provided in Part D of Section I of Schedule 4 to this Agreement.

(b) 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 3.05. (a) Without limitation to the provisions of Sections 3.01 (a) and 3.04 (a) of this Agreement, the Borrower shall cause DNV:

- (i) to carry out and/or cause to be carried out Part A.1 of the Project in accordance with the provisions of the Environmental Evaluation and Management Manual;
- (ii) to: (A) not later than November 30, 2004 update the Environmental Evaluation and Management Manual (the Updated Environmental Evaluation and Management Manual) in a manner and on terms acceptable to the Bank, which updated version will include, *inter alia*: (1) the guidelines and procedures to be followed by DNV in the carrying out of environmental screenings and/or environmental assessments (as the case may be) in respect of the works under Parts A.2, A.3, B.1, C.1 (d) and C.2 (a) of the Project; (2) the standard environmental provisions to be included in the bidding documents for the works to be carried out under said Parts of the Project (including provisions

to minimize natural habitat conversion or degradation and to permit the maximum growth of natural vegetation (whether it is native grasslands, scrublands, or forests) within the pertinent right of way); (3) the guidelines for the preparation of the appropriate environmental management plan for each of the works to be carried out under said Parts of the Project; and (4) the procedures for the approval of environmental management plans; and (B) thereafter carry out and/or cause to be carried out said Parts of the Project in accordance with said updated version.

(b) In case of any conflict amongst the terms of the Operational Manual, the Environmental Evaluation and Management Manual, the Updated Environmental Evaluation and Management Manual and those of this Agreement, the terms of this Agreement shall prevail.

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

(b) The Borrower shall cause DNV to ensure that the PCU is, at all times during Project implementation, headed by a General Coordinator and assisted by other adequate professional staff (with expertise in engineering, administrative, procurement and financial matters) and administrative staff, all with qualifications and experience acceptable to the Bank.

Section 3.07. (a) The Borrower shall cause DNV to 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 DNV in: (i) the environmental screening and/or environmental assessment of each of the works to be carried out under the Project (as mentioned in Section 3.08 of this Agreement); and (ii) taking the appropriate actions to prevent and/or mitigate any potential negative environmental impacts under the Project which are within DNV's jurisdiction.

(b) The Borrower shall cause DNV to ensure that the EU is at all times during Project implementation staffed with adequate professional and administrative personnel, all with qualifications and experience acceptable to the Bank.

Section 3.08 (a) Without limitation to the provisions of Section 3.05 (a) of this Agreement, the Borrower shall cause DNV to:

- (i) (A) prior to the commencement of any works under a CREMA Contract in respect of Part A.1 of the Project: (1) carry out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent works; and (2) approve an environmental management plan, acceptable to the Bank, for each said works (which plan shall be based on the results of the environmental screening and/or environmental assessment mentioned in (1) herein, and the Bank comments on the results of said screening and/or assessment, if any), all in accordance with the provisions of the Environmental Evaluation and Management Manual; and (B) immediately after said approval, implement and/or cause to be implemented (as the case may be) the corresponding environmental management plan in accordance with its terms; and
- (ii) (A) prior to the commencement of any given works under Parts A.2, A.3, B.1 and C.1 (d) and C.2 (a) of the Project: (1) carry out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent works; and (2) if appropriate to the nature of the works, approve an environmental management plan, acceptable to the Bank, for each of said works (which plan shall be based on the results of the environmental screening and/or environmental assessment mentioned in (1) herein and the Bank comments on the results of said screening and/or assessment, if any), all in accordance with the provisions of the Updated Environmental Evaluation and Management Manual; and (B) immediately after said approval, implement and/or cause to be implemented (as the case may be) the corresponding environmental management plan in accordance with its terms.

(b) The Borrower shall, and shall cause DNV to, ensure that: (i) works to be carried out under Parts A, C.1 (d) and C.2 (a) of the Project do not involve any resettlement of population, or construction of new roads or any realignment or widening of existing roads; and (ii) works to be carried out under Part B.1 of the Project do not involve any resettlement of population.

Section 3.09. (a) Before entering into:

- (i) a CREMA Contract, the Borrower shall cause DNV to furnish to the Bank a report, satisfactory to the Bank, showing: (A) the road network prioritization of the particular works covered by such CREMA Contract, which prioritization shall be based on

traffic levels, road infrastructure condition indicators and the ratio resulting from the comparison of the Net-present Value of said particular works over the cost of said particular works; and (B) the economic feasibility of the carrying out of the particular works covered by such CREMA Contract, including a showing that the economic rate of return for such works, calculated in accordance with criteria satisfactory to the Bank, is expected to be at least twelve percent; and

- (ii) a given works contract under Part B.1 of the Project, the Borrower shall cause DNV to furnish to the Bank a report, satisfactory to the Bank, showing the economic feasibility of the carrying out of the particular works under Part B.1 of the Project, including a showing that the economic rate of return for such works, calculated in accordance with criteria satisfactory to the Bank, is expected to be at least twelve percent.

(b) For purposes of this section, "Net-present Value" means the net value or benefit of an investment minus the present value of said investment's costs throughout the period of execution of said investment.

Section 3.10. The Borrower shall:

(a) maintain, and cause DNV to maintain, as the case may be, policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Operational Manual, the carrying out of the Project and the achievement of the objectives thereof;

(b) cause DNV to prepare, under terms of reference satisfactory to the Bank, and to furnish to the Bank, not later than thirty days after the end of each calendar quarter during Project implementation (starting with the report due in January 2005), 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 quarter preceding the date of presentation of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the following calendar quarter; and

(c) review with the Bank and DNV not later than April 30 of each year of Project implementation (starting in the year 2005), the pertinent reports referred to in paragraph (b) of this Section and Section 3.12 of this Agreement, and, thereafter, take and/or cause to be taken, as the case may be, all measures required to ensure the efficient

completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter.

Section 3.11. The Borrower shall cause DNV to not later than January 31, 2005, create, and thereafter maintain throughout Project implementation, specific budget line entries in its annual budget in order to keep track of the expenditures incurred during Project implementation.

Section 3.12. The Borrower shall cause DNV to not later than May 31 of each year of Project implementation (starting in the year 2005), prepare and publish DNV's annual report for the immediately preceding calendar year. Each such report shall contain a complete description of DNV's: (a) work program and operations performance; and (b) expenditures incurred in respect of the Project and the source of financing of said expenditures, for said calendar year.

Section 3.13. The Borrower shall cause DNV to not later than November 30, 2004: (a) establish and thereafter maintain throughout Project implementation a steering committee with functions and responsibilities acceptable to the Bank, including the responsibility to oversee the monitoring and supervision of the implementation of the Institutional Renewal Action Plan; and (b) designate a professional with experience and qualifications acceptable to the Bank to head said committee throughout Project implementation.

Section 3.14. (a) Without limitation to the provisions of Section 3.01 (a) of this Agreement, the Borrower shall cause DNV to carry out the Institutional Renewal Action Plan in a manner acceptable to the Bank.

(b) The Borrower, through SOP, shall provide the necessary assistance to DNV in the carrying out of the analysis referred to in Part D.1 (f) of the Project (which analysis is part of the activities included the Institutional Renewal Action Plan).

Section 3.15. The Borrower shall cause DNV to: (a) not later than December 31 of each year of Project implementation (starting in the year 2005), carry out road and traffic surveys of the Non-Concessioned National Road Network; and (b) not later than June 30 of each year of Project implementation (starting in the year 2006) prepare and furnish to the Bank a report of such scope and in such detail as the Bank shall reasonably request concerning the results of the survey carried out during the calendar year prior to the date of presentation of said report.

Section 3.16. The Borrower shall cause DNV to: (a) not later than November 30, 2004, update (in a manner acceptable to the Bank) its procurement information system so as to, *inter alia*, reflect information concerning DNV's procurement process;

and (b) immediately thereafter implement said system in a manner acceptable to the Bank.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall cause DNV to:

- (i) have the respective financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall cause DNV to:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from

the Loan Account was made; enable the Bank's representatives to examine such records; and ensure that such statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) Without limitation to the provisions of Section 3.10 (b) of this Agreement, the Borrower shall cause DNV to prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance satisfactory to the Bank, which: 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; 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 sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause DNV:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry out its operations and conduct its affairs in accordance with sound administrative, financial, technical, engineering, social and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, social, technical and environmental practices.

ARTICLE VI

Remedies of the Bank

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

(a) That DNV shall have failed to perform any of its obligations under the Subsidiary Agreement.

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

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

ARTICLE VII

Effective Date; Termination

Section 7.01. 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 Subsidiary Agreement has been signed by the parties thereto; and

(b) the Operational Manual has been approved by DNV.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and DNV and is legally binding upon the Borrower and DNV in accordance with its terms.

Section 7.03. The date March 7, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministerio de Economía y Producción
Hipólito Yrigoyen 250
C1109ADA, Buenos Aires
Argentina

Cable address:	Telex:	Facsimile:
MINISTERIO DE ECONOMIA Baires	121942-AR	(5411) 43498815

For the Bank:

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

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

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

ARGENTINE REPUBLIC

By /s/ Roberto Lavagna

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Felipe Saez

Regional Vice President
Latin America and the Caribbean Region

Honorary Witness:

/s/ Julio de Vido
Minister of Federal Planning, Public Investment and Services

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>	Amount of the Loan Allocated (Expressed in <u>Dollars</u>)	% of Expenditures to be <u>financed</u>
(1)	Works for CREMA Contracts under Part A.1 of the Project	131,300,000	74%
(2)	Work for CREMA Contracts under Part A.2 of the Project	51,500,000	74%
(3)	Works under Part B.1 of the Project	7,300,000	70%
(4)	Works under Parts C.1 (d) and C.2 (a) of the Project	3,120,000	70%
(5)	Goods	140,000	70%
(6)	Consultants' services	4,540,000	95%
(7)	Training	100,000	100%
(8)	Front-end fee	2,000,000	Amount due under Section 2.04 of this Agreement
(9)	Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
		<hr/>	
	TOTAL	200,000,000 =====	

2. For the purposes of this Schedule, the term "Training" means expenditures (other than those for consultants' services) incurred by DNV, 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 under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$20,000,000, may be made in respect of Category (1) in the table in paragraph 1 of this Schedule on account of payments made for expenditures within one year before that date (but after May 31, 2004).

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for:

(a) goods costing less than \$350,000 equivalent per contract (with the exception of the first two contracts for goods to be procured each year of Project implementation under Part B.1 and B.2 of Section II of Schedule 5 to this Agreement regardless of their cost);

(b) works costing less than \$5,000,000 equivalent per contract (with the exception of the first two contracts for works to be procured each year of Project implementation under each Parts B.1, C.1 (d) and C.2 (a) of the Project);

(c) services of individual consultants costing less than \$50,000 equivalent per contract;

(d) services of consulting firms under contracts costing less than \$200,000 equivalent per contract; and

(e) Training under Category (4) as set forth in paragraph 1 of this Schedule, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) further preserve the Non-Concessioned National Road Network, through the gradual expansion of CREMA Contracts in said network; and (b) strengthen DNV's road sector management capacity.

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: Non-Concessioned National Road Network Rehabilitation and Maintenance

1. Carrying out, under the terms of twenty seven (27) CREMA Contracts (listed in the Implementation Letter), of rehabilitation works (such as base reconstruction, resurfacing, or asphalt concrete overlaying) and/or maintenance works for approximately 4,628 kilometers of the Non-Concessioned National Road Network.
2. Carrying out, under the terms of twenty one (21) CREMA Contracts (listed in the Implementation Letter), of rehabilitation works (such as base reconstruction, resurfacing, or asphalt concrete overlaying) and/or maintenance works for approximately 3,560 kilometers of the Non-Concessioned National Road Network.
3. Carrying out, under the terms of thirty five (35) CREMA Contracts, of rehabilitation works (such as base reconstruction, resurfacing, or asphalt concrete overlaying) and/or maintenance works for approximately 6,254 kilometers of the Non-Concessioned National Road Network.

Part B: Bridge Restoration and Construction

1. Carrying out of:
 - (a) bridge restoration works for approximately three (3) bridges of the Non-Concessioned National Road Network (which works consist of either the widening of the deck from 6 to about 8 meters or the total replacement and reconstruction of the pertinent bridge within the existing right of way); and

(b) construction works for two (2) bridges of the Non-Concessioned National Road Network to replace the existing ones (including the construction of new accesses to said bridges), all within the existing right of way.

2. Carrying out of engineering designs for future bridge restoration works within the Non-Concessioned National Road Network.

3. Adoption and implementation of a bridge management system.

Part C: Road Safety

1. Design and implementation of a large-scale road safety pilot program in four corridors of the National Road Network (selected by DNV in accordance with criteria acceptable to the Bank), which program consists of, *inter alia*:

(a) the design of a system to monitor and evaluate the impact of said program;

(b) the design of an education and communication strategy, including the implementation of selected activities under said strategy such as the upgrading of current road safety educational practices at schools and the carrying out of an awareness campaign along said four corridors (including all urban centers within said corridors);

(c) the preparation of engineering designs for the upgrading of safety standards in said corridors; and

(d) the upgrading of safety standards, which upgrading consists of, *inter alia*, roadway edge widening and marking, placing rubble strips and obstacle shields along roadsides, placing horizontal markings, improving urban crossings and increasing size and quality of signs.

2. (a) Enhancement of road safety conditions in approximately six intersections of the National Road Network, and the horizontal road demarcation of approximately 310 kilometers of said network; and

(b) carrying out of engineering designs for future road safety works within the National Road Network.

Part D: Institutional Renewal

1. Design and implementation of an institutional renewal program for DNV which program consists of:

(a) the design of a human resources plan to further strengthen DNV's technical and institutional capacity in its new envisioned role as strategic planner of the National Road Network and a result-oriented institution (including the implementation of selected activities within said plan);

(b) the design of a technology modernization strategy to increase DNV's productivity and strengthen its planning, supervisory and monitoring capacity (including the implementation of selected activities within said strategy);

(c) the streamlining of administrative processes to achieve efficiency gains in the internal management of the institution;

(d) the design and implementation of appropriate mechanisms to disseminate DNV's administrative, operational and financial performance, including, *inter alia*, the preparation of a code of ethics;

(e) the strengthening of DNV's capacity to address environmental issues through the design and implementation of an environmental institutional strengthening plan; and

(f) the carrying out of an analysis of the options to ensure long term financial sustainability in the road sector and stable flows of funds for road maintenance.

2. Strengthening of the PCU to assist DNV in the carrying out of the Project.

* * *

The Project is expected to be completed by June 30, 2008.

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.

	Installment Share
<u>Payment Date</u>	<u>(Expressed as a %)</u>
On each June 1 and December 1	
Beginning June 1, 2010 through June 1, 2018	5.56%
On December 1, 2018	5.48%

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

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

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by

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

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

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

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either:

- (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or
- (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

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

SCHEDULE 4

Procurement

Section I. General

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

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

C. (i) The invitations to bid, bidding documents, minutes of bid openings, requests for expressions of interest and notifications of awards of all goods, works and services (including consultants' services), as the case may be, to be procured under Parts A.2, B, C and D of the Project shall be published in the web page of ONC in a manner acceptable to the Bank; and

(ii) the provisions set forth in (i) herein shall also apply to those CREMA Contracts under Part A.1 of the Project, as appropriate.

D. (i) All contracts for works procured prior to the date of this Agreement under Part A.1 of the Project shall contain a methodology, acceptable to the Bank, whereby the price of each said contracts shall be adjusted in a manner acceptable to the Bank; and

(ii) all contracts for works to be procured under Part A.2 of the Project shall contain a methodology, acceptable to the Bank, whereby the price of each said contracts shall be adjusted on a monthly basis, through the use of price adjustment formulas, in a manner acceptable to the Bank.

E. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the

meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

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

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

B. Other Procurement Procedures

1. National Competitive Bidding.

(a) Goods estimated to cost less than \$500,000 equivalent per contract and works estimated to cost less than \$5,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

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

2. Shopping.

Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$350,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants' Qualifications. Services estimated to cost \$100,000 equivalent or less per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

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

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

Section IV. Review by the Bank of Procurement Decisions

1. Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for goods estimated to cost \$350,000 equivalent or more per contract, and each contract for goods to be procured under Part B.3 of Section II of this Schedule; (b) the first two contracts for goods to be procured each year of Project implementation under Parts B.1 and B.2 of Section II of this Schedule regardless of their cost; (c) each contract for works to be procured under Parts A and B.3 of Section II of this Schedule; (d) the first two contracts for works to be procured each year of Project implementation under Parts B.1 and B.2 of Section II of this Schedule; and (e) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more, or to be selected on a sole source basis.

2. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for each contract for the employment of individual consultants estimated to cost more than \$50,000 equivalent, or to be selected on a sole source basis, shall be subject to Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan 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 \$30,000,000 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 \$10,000,000 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 be equal to \$30,000,000.

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 for the Project, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for the Project], 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 for the Project 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.

Reynaldo Pastor
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