

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7268-AR

Loan Agreement

(Buenos Aires Infrastructure Sustainable Investment Development Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

PROVINCE OF BUENOS AIRES

Dated March 8, 2005

Public Disclosure Authorized

LOAN NUMBER 7268-AR

LOAN AGREEMENT

AGREEMENT, dated March 8, 2005, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PROVINCE OF BUENOS AIRES (the Borrower).

WHEREAS (A) the Bank has received a letter from the Borrower, dated November 10, 2004, describing a program designed to improve the provision of infrastructure services in the Borrower's territory in accordance with the Fiscal Framework (as defined in Section 1.02 (g) below) so as to enable the Borrower to return to a sustainable path of economic growth, alleviate poverty and increase social equity (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 (6) years to be utilized by the Borrower in the implementation of the Program);

(C) the Argentine Republic (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project, in support of the Program, described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(D) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(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 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) “Conurbano Bonaerense” means the area covered by the following Borrower’s municipalities: Almirante Brown, Avellaneda, Berazategui, Esteban Echeverría, Ezeiza, Florencio Varela, General San Martín, Hurlingham, Ituzaingo, José C. Paz, La Matanza, Lanus, Lomas de Zamora, Malvinas Argentinas, Merlo, Moreno, Morón, Presidente Perón, Quilmes, San Fernando, San Isidro, San Miguel, San Vicente, Tres de Febrero, Tigre and Vicente López;

(b) “Disbursed Amount” means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in said Interest Period;

(c) “DIPSOH” means *Dirección Provincial de Saneamiento y Obras Hidráulicas*, the Provincial Sewerage and Hydraulic Directorate established within MIHPS;

(d) “DPV” means *Dirección Provincial de Vialidad*, the Borrower’s Provincial Road Agency established under the jurisdiction of MIHPS (as defined below) pursuant to the Borrower’s Decree Law No. 7.943/72 of November 21, 1972, as said Decree Law has been amended to the date of this Agreement;

(e) “Drainage Subproject” means any of the investments under Part C of the Project which meet the criteria set forth in the Operational Manual;

(f) “Executed Agreement” means: (1) a binding agreement between the grantor of the pertinent water and sewerage concession and the relevant Operator, which agreement constitutes a renegotiation of a previously existing concession agreement between said parties and ensures the provision of water and sewerage services in a context of economic/financial sustainability of the concession, if said Operator is providing water and sewerage services under a water and sewerage concession within the jurisdiction of the Guarantor; or (2) a binding agreement between the grantor of the pertinent water and sewerage concession and the relevant Operator, which agreement constitutes a new concession agreement or a renegotiation (*readecuación*) of a previously existing concession agreement between said parties either of which ensures the provision of water and sewerage services in a context of economic/financial sustainability of the concession, if said Operator is or will be providing water and sewerage services under a water and sewerage concession within the jurisdiction of the Borrower or within the jurisdiction of any of the Borrower’s municipalities;

(g) “Fiscal Framework” means the Borrower’s fiscal program of actions, objectives and policies, acceptable to the Bank, designed to ensure the existence of the fiscal space necessary for Project implementation in the short term, and fiscal sustainability in the medium term, as the same may be amended from time to time with the agreement of the Bank;

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

(i) “Framework Agreement” means any of the agreements referred to in Section 3.06 (a) (ii) of this Agreement;

(j) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank setting forth the Fiscal Framework (as defined above) and the list of Drainage Subprojects and Road Subprojects (as defined above and below,

respectively), as such list may be amended from time to time as provided by Section 3.13 of this Agreement;

(k) “Law No. 7.764” means the Borrower’s Law No. 7.764 of August 31, 1971, governing, *inter alia*, public procurement, and such term also includes the regulations to said law concerning public procurement, as said law and regulations have been amended to the date of this Agreement;

(l) “Maturity Fixing Date” means, for each Disbursed Amount, the date on which the amortization schedule for said Disbursed Amount is established, such date being the first day of the Interest Period next following the Interest Period in which said Disbursed Amount is withdrawn;

(m) “ME” means *Ministerio de Economía*, the Borrower’s Ministry of Economy;

(n) “MIHPS” means *Ministerio de Infraestructura, Vivienda y Servicios Públicos*, the Borrower’s Ministry of Infrastructure, Housing and Public Services;

(o) “Operational Manual” means the manual referred to in Section 3.05 (a) of this Agreement, as said manual may be amended from time to time with the agreement of Bank;

(p) “Operator” means a public (including a financially and administratively autonomous, as determined by the Bank, subdivision of any of the Borrower’s municipalities) or private water and sewerage sector utility (including a cooperative) whose role is to provide water and sewerage services within the Borrower’s territory;

(q) “Pesos” means the currency of the Guarantor;

(r) “Procurement Plan” means the Borrower’s procurement plan, dated November 1, 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 3.03 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(s) “Regulatory Framework” means *Marco Regulatorio para la Prestación de los Servicios de Agua Potable y Desagues Cloacales*, the Borrower’s regulatory framework for the provision of potable water and sanitation services (established pursuant to the Borrower’s Decree No. 878/03 of June 9, 2003, subsequently amended by

the Borrower's Decree 2.231/03 of November 20, 2003, and thereafter ratified by Article 33 of the Borrower's Law No. 13.154 of December 30, 2003);

(t) "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;

(u) "Road Subproject" means any of the investments under Parts B.1 through B.5 of the Project which meet the criteria set forth in the Operational Manual;

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

(w) "Subproject" means a Drainage Subproject, a Road Subproject, and/or a Water and Sewerage Subproject (as the case may be);

(x) "UCO" means *Unidad de Coordinación con Organismos Multilaterales de Crédito*, the Borrower's Unit for Coordination with Multilateral Credit Organizations (established within ME pursuant to the Borrower's Decree No. 258/02 of February 7, 2002), and acting as the Project coordination unit; and

(y) "Water and Sewerage Subproject" means any of the investments under Part A of the Project which meet the criteria set forth in the Operational Manual.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in 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 front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in a commercial bank 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 4 to this Agreement.

Section 2.03. The Closing Date shall be July 31, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

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

Section 2.05. The 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 April 15 and October 15 in each year.

Section 2.08. (a) Subject to the provisions of paragraph (b) of this Section, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each April 15 and October 15, the first such installment to be payable on the ninth (9th) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount and the last such installment to be payable on the twenty fourth (24th) Interest Payment

Date following the Maturity Fixing Date for said Disbursed Amount. Each installment except for the last one shall be equal to one-sixteenth (1/16) of said Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of said Disbursed Amount.

(b) Notwithstanding the provisions of paragraph (a) of this Section, if any one or more installments of principal of any Disbursed Amount would, pursuant to the provisions of such paragraph (a), be payable after 15th of April, 2021, the Borrower shall also pay on such date the aggregate amount of all such installments.

(c) The Bank shall notify the Borrower and the Guarantor of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for said Disbursed Amount.

(d) Notwithstanding the provisions of paragraphs (a) through (c) of this Section, in the event of a Currency Conversion of all or any portion of a Disbursed Amount 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.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out: (a) Part A of the Project through MIHPS, and with the assistance of DIPSOH, and in accordance with the pertinent Framework Agreement; (b) carry out Part B of the Project through MIHPS, and with the assistance of DPV; (c) Part C of the Project through MIHPS, and with the assistance of DIPSOH; and (d) Parts D, E and F of the Project through ME, all with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering, public utility and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Without limitation to the provisions of Section 3.01 (b) of this Agreement, the Borrower, through MIHPS, and with the assistance of DPV, shall, each year of Project implementation starting in the 2005 calendar year, carry out the corresponding annual routine maintenance works of the Borrower's primary paved road network, as said works are set forth in the pertinent annual investment plan referred to in Section 3.16 of this Agreement, for which purposes the Borrower, through MIHPS, shall make available to DPV promptly as needed, in Pesos equivalent, an annual amount equal to at least US\$15,000,000.

Section 3.03. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 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 3.04. 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 3.05. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project in accordance with a manual (the Operational Manual), acceptable to the Bank, said manual to include, *inter alia*: (i) the eligibility criteria for Water and Sewerage Subprojects (which criteria shall reflect poverty targeting and technical considerations) and Operators; (ii) the eligibility criteria for Drainage Subprojects and Road Subprojects; (iii) the environmental guidelines to be followed by the Borrower in carrying out the environmental screening and/or assessments referred to in Sections 3.07 and 3.08 of, and paragraph 3 (b) (ii) of Schedule 1 to, this Agreement; (iv) the standard environmental provisions to be included in the bidding documents for the Subprojects to be carried out under 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); (v) the Project's chart of accounts and internal controls; (vi) the FMR formats; (vii) the terms of reference for carrying out the Project audits; (viii) the Project indicators; (ix) the Project disbursement procedures; and (x) the Project procurement procedures.

(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 3.06. (a) Without limitations to the provisions of Section 9.01 of the General Conditions, the Bank and the Borrower shall, from time to time, at the request of any of them, exchange views so as to enable the Bank to determine compliance of the Operators in meeting the eligibility criteria set forth in the Operational Manual which criteria shall include: (i) an Executed Agreement (or the presentation to the Bank of evidence that ensures the provision of water and sewerage services in a context of economic/financial sustainability of said services if said Operator is or will be providing water and sewerage services as a subdivision of any of the Borrower's municipalities as referred to in Section 1.02 (p) of this Agreement); and (ii) the execution of a binding agreement (the Framework Agreement) to be entered into between the Borrower and said Operator, on terms and conditions acceptable to the Bank, which shall include *inter alia*, those set forth in Schedule 5 to this Agreement.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under each Framework Agreement in such manner as to protect the interests of the

Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Framework Agreement or any provision thereof.

Section 3.07. Without limitation to the provisions of Section 3.01 (c) of this Agreement, the Borrower, through MIHPS, and with the assistance of DIPSOH, shall: (a) prior to the commencement of any given Drainage Subproject: (i) carry out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent Drainage Subproject; and (ii) if appropriate to the nature of the works, approve an environmental management plan, acceptable to the Bank, for said Drainage Subproject (which plan shall be based on the results of the environmental screening and/or environmental assessment mentioned in (a) 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 Operational 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.

Section 3.08. Without limitation to the provisions of Section 3.01 (b) of this Agreement, the Borrower, through MIHPS, and with the assistance of DPV, shall: (a) prior to the commencement of any given Road Subproject, any road maintenance works or any widening works under Parts B.6 or B.7 of the Project, respectively: (i) carry out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent Road Subproject, road maintenance works and/or widening works; and (ii) if appropriate to the nature of the works, approve an environmental management plan, acceptable to the Bank, for said Road Subproject, road maintenance works and widening works (which plan shall be based on the results of the environmental screening and/or environmental assessment mentioned in (a) 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 Operational 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.

Section 3.09. The Borrower shall ensure that any Subproject (and/or any road maintenance works and/or any widening works under Parts B.6 and B.7 of the Project, respectively) does not involve any Resettlement.

Section 3.10. (a) The Borrower shall operate and maintain, at all times during Project implementation, the UCO with a structure, functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of the UCO to administer (on behalf of the Borrower) the proceeds of the Loan withdrawn by the Borrower from the Bank and assist the Borrower in the coordination, monitoring and supervision of the carrying out of the Project.

(b) The Borrower shall ensure that the UCO is, at all times during Project implementation, headed by the Minister of ME (in the capacity of general coordinator) and assisted by an executive coordinator and other professional staff and administrative staff, all in numbers and with qualifications and experience acceptable to the Bank as provided in the Operational Manual.

Section 3.11. The Borrower shall:

(a) maintain 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) 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 semester during Project implementation (starting with the report due in July 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 (including the progress achieved in the carrying out of the corresponding investment plan referred to in Section 3.16 of this Agreement) during the calendar semester 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 semester; and

(c) review with the Bank not later than July 30 of each year of Project implementation (starting in the year 2005), the pertinent reports referred to in paragraph (b) of this Section, 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 3.12. If, as a result of the annual review to be carried out not later than July 30, 2007 under Section 3.11 (c) of this Agreement, the Bank determines in consultation with the Borrower that the demand for carrying out Water and Sewerage Subprojects is less than the expected demand as reflected in the Project monitoring indicators, and without limitation to the provisions of Section 5.04 of the General Conditions, the Bank may reallocate the Loan proceeds allocated under the pertinent disbursement Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement, which as of the date of said annual review have not been committed, within other disbursement Categories set forth in said table to satisfy the corresponding Project demand at the time of said reallocation.

Section 3.13. If during Project implementation the Borrower decides to replace one or more Drainage Subprojects and/or Road Subprojects listed in the Implementation Letter and/or add one or more Drainage Subprojects and/or Road Subprojects to those listed in said letter, the Borrower shall furnish to the Bank, for its approval, the pertinent new Drainage Subprojects and/or Road Subprojects. Upon approval of said new Drainage Subprojects and/or Road Subprojects by the Bank, the Borrower shall carry out said new Drainage Subprojects and/or Road Subprojects in accordance with the pertinent obligations set forth in this Agreement.

Section 3.14. The Borrower shall, not later than thirty calendar days after the Effective Date, create, and thereafter maintain throughout Project implementation, specific budget line entries in ME's and MIHPS' annual budgets in order to keep track of the expenditures incurred during Project implementation in respect of the Parts of the Project under their responsibility.

Section 3.15. (a) The Borrower shall: (i) not later than March 31, 2005 hire an auditor, acceptable to the Bank, with professional qualifications and experience acceptable to the Bank, for purposes of carrying out: (A) monthly technical audits (under terms of reference acceptable to the Bank) of the progress of widening works under Part B.7 of the Project and works under Subprojects being carried out during the pertinent calendar month and the corresponding payment made by the Borrower to the respective contractor, if applicable, in accordance with the pertinent works contract; and (B) the financial audits referred to in Section 4.01 (b) (i) of this Agreement; (ii) not later than thirty calendar days after the end of each calendar month during Project implementation, starting with the calendar month in which the auditor referred to in (i) herein was hired, cause said auditor to commence, on behalf of the Borrower, said monthly technical audits (which first audit shall also cover all widening works under Part B.7 of the Project and Subprojects which met the conditionality mentioned in paragraph 3 (a) of Schedule 1 to this Agreement); and (iii) not later than thirty calendar days after the end of each calendar semester (starting with the calendar semester ending in June 2005) 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 monthly audits carried out during said calendar semester, and the actions mentioned in paragraph (b) below, if any.

(b) If any of the monthly technical audits mentioned in paragraph (a) (ii) above, identifies any irregularity, the Borrower shall immediately thereafter take and/or cause to be taken, as the case may be, all necessary actions to address said irregularity in a manner acceptable to the Bank.

Section 3.16. (a) Without limitation to the provisions of Section 3.01 (b) of this Agreement, the Borrower, through MIHPS, and with the assistance of DPV, shall: (i) not later than December 31 of each year of Project implementation (starting in the year

2005), prepare and furnish to the Bank an annual investment plan, acceptable to the Bank (each such plan to include, *inter alia*, a complete description of DPV's annual routine maintenance works of the Borrower's primary paved road network and those maintenance works under Part B.6 of the Project, all of which to be carried out during the year following the presentation of said plan, the expenditures to be incurred in respect of said works and the source of financing of said expenditures); and (ii) immediately thereafter implement each corresponding plan in accordance with its terms (including the investment plan for the year 2005 referred to in paragraph (b) below).

(b) In respect of the investment plan for the year 2005, the Borrower, through MIHPS, and with the assistance of DPV, shall, not later than thirty calendar days after the Effective Date, prepare and furnish to the Bank said investment plan as provided in paragraph (a) (i) above.

Section 3.17. The Borrower shall: (a) not later than six calendar months after the Effective Date prepare (under terms of reference acceptable to the Bank) baseline indicators to measure the impact of the Project in respect of the Project beneficiaries; and (b) immediately thereafter measure, on an ongoing basis, the Project impact mentioned in (a) herein in accordance with said baseline indicators.

Section 3.18. The Borrower shall: (a) not later than sixty calendar days after the Effective Date, establish (in a manner acceptable to the Bank) a procurement information system so as to, *inter alia*, reflect information concerning the Borrower's procurement process; and (b) immediately thereafter implement said system in a manner acceptable to the Bank.

Section 3.19. (a) The Borrower may hire the United Nations Industrial Development Organization to procure, on behalf of the Borrower, consultants' services under Part E of the Project. In the event that the Borrower has decided to hire said entity, it shall enter into an agreement with the same under terms and conditions acceptable to the Bank, which shall include, *inter alia*, the obligation of the Borrower to finance the fees of said entity with its own funds, and the obligation of said entity to carry out said procurement in accordance with the provisions of Section 3.03 of this Agreement.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under the agreement mentioned in (a) of this Section 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 said agreement or any provision thereof.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in 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:

- (i) have the 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 and terms of reference acceptable to the Bank, by the auditor referred to in Section 3.15 (a) of this Agreement 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 other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditor, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditor, as the Bank may from time to time reasonably request.

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

- (i) retain, 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, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and

- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.11 (b) of this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

Section 4.03. (a) The Borrower shall maintain, at least throughout Project implementation, the compliance with the Fiscal Framework.

(b) The Borrower shall: (i) not later than March 15 and August 15 of each year of Project implementation, starting in March 2005, prepare and furnish to the Bank a report of such scope and in such detail as the Bank shall reasonably request concerning progress made by the Borrower in maintaining compliance with the Fiscal Framework; and (ii) not later than thirty calendar days after the presentation of each said reports review with the Bank the pertinent report.

(c) If as a result of any such review, the Bank determines that there is a need to modify the contents of the Fiscal Framework due to, inter alia, recent economic developments and changes in the medium outlook for the Borrower, the Borrower shall promptly take all necessary measures to modify the contents of the Fiscal Framework on terms acceptable to the Bank, and thereafter maintain compliance with the Fiscal Framework in accordance with the revised terms.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall, in respect of the Project:

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

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

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

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified, provided, however, that if the event specified in paragraph (a) below shall have occurred and be continuing, the suspension of the Borrower's right to make withdrawals from the Loan Account may be limited by the Bank at the Bank's sole discretion to withdrawals in respect of all Water and Sewerage Subprojects for which a bidding process has not commenced at the time the Bank sent to the Borrower the notice referred to in Section 6.02 of the General Conditions, and if any of the events specified in the following paragraphs (b) or (c) shall have occurred and be continuing, the suspension of the Borrower's right to make withdrawals from the Loan Account may be limited by the Bank at the Bank's sole discretion to withdrawals in respect of those Water and Sewerage Subprojects for which a bidding process has not commenced at the time the Bank sent to the Borrower the notice referred to in Section 6.02 of the General Conditions within the pertinent water and sewerage concession/permit affected by any of said additional events:

(a) That the Regulatory Framework or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as

to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower to carry out any Water and Sewerage Subproject.

(b) That any party to an Executed Agreement shall have failed to perform any of its respective obligations under the corresponding agreement.

(c) That any water and sewerage subdivision referred to in Section 3.06 (a) (i) of this Agreement shall have failed to ensure at any time the provision of water and sewerage services in a context of economic/financial sustainability of said services.

Section 6.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that any of the events specified in Section 6.01 (a) or (b) or (c) of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that the Operational Manual has been approved by the Borrower.

Section 7.02. The date June 6, 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 ME 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
Calle 8 entre 45 y 46

La Plata
CP 1900 Buenos Aires, Argentina

Facsimile:
0054-221—4294501/02/03

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Axel van Trotsenburg

Acting Regional Vice President
Latin America and the Caribbean Region

PROVINCE OF BUENOS AIRES

By /s/ Felipe Solá

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Works		
(a) Under Water and Sewerage Subprojects	52,300,000	79%
(b) Under Road Subprojects	85,400,000	79%
(c) under Drainage Subprojects	11,300,000	79%
(d) under Part B.7 of the Project	15,800,000	79%
(2) Goods	3,530,000	80%
(3) Consultants' services	8,860,000	71%
(4) Non-Consultant Services	1,200,000	80%
(5) Training	1,310,000	100%
(6) Front-end fee	1,000,000	Amount due under Section 2.04 of this Agreement
(7) Unallocated	<u>19,300,000</u>	
TOTAL	<u>200,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “Non-Consultant Services” means expenditures incurred related to the digitalization of the new model of cadastral management referred to in Part D.4 of the Project; and

(b) the term “Training” means expenditures (other than those for consultants’ services) based on an annual budget previously approved by the Bank, incurred by the Borrower to finance reasonable transportation costs and per-diem of trainees and trainers (if applicable), training registration fees and rental of training facilities (including logistics arrangements of meetings/workshops/seminars for the provision of training) and training equipment under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$20,000,000, may be made in respect of Categories (1) (a), (1) (b), (1) (c), (1) (d) and (3) in the table in paragraph 1 of this Schedule on account of payments made for expenditures within one year before that date (but after October 1, 2004), provided, however, that withdrawals may only be made for expenditures incurred within the timeframe referred to herein in respect of Category (1) (a) in the table in paragraph 1 of this Schedule if the pertinent conditions referred to in paragraph 3 (b) below have been met; and

(b) payments made to finance any Water and Sewerage Subproject located within the jurisdiction of a given Operator under Category (1) (a) set forth in the table in paragraph 1 of this Schedule, unless that prior to the commencement of the pertinent works under any said Water and Sewerage Subproject:

(i) said Operator has met the eligibility criteria referred to in Section 3.06 (a) of this Agreement and in the Operational Manual; and

(ii) the Borrower, through MIHPS, and with the assistance of DIPSOH, shall have: (A) carried out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent Water and Sewerage Subproject, and if appropriate to the nature of the works, approved an environmental management plan, acceptable to the Bank, for said Water and Sewerage Subproject (which plan shall be based on the results of the

environmental screening and/or environmental 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 Operational Manual; and (B) immediately after said approval, implemented and/or caused to be implemented (as the case may be) the corresponding environmental management plan in accordance with its terms.

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 \$300,000 equivalent per contract with the exception of the first three contracts for goods to be procured under each procurement methodology referred to in Parts B.1 and B.2 of Section II of Schedule 3 to this Agreement regardless of their cost; (b) works costing less than \$3,000,000 equivalent per contract with the exception of the first three contracts for works to be procured under each procurement methodology referred to in Parts B.1 and B.2 of Section II of Schedule 3 to this Agreement regardless of their cost; (c) for services of individual consultants costing less than \$50,000 equivalent per contract with the exception of the first three contracts for services of individual consultants under the Project and those to be selected on a sole source basis; (d) for services of consulting firms under contracts costing less than \$200,000 equivalent per contract with the exception of the first three contracts to be procured under each procurement methodology referred to in Parts B.1 and B.2 of Section III of Schedule 3 to this Agreement regardless of their cost; (e) Non-Consultant Technical Services with the exception of the first three contracts for said type of services to be procured under the Project; and (f) Training under Category (5) as set forth in the table 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: (a) to enhance the provision of water and sewerage services for the benefit of low-income people, in particular for those people living in highly vulnerable areas; (b) to improve high priority road segments of the Borrower's road network; (c) to mitigate urban flooding; and (d) to support the reactivation of the Borrower's economy and strengthen its regional competitiveness.

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: Water and Sewerage

Carrying out of water and sewerage infrastructure investments, which investments will consist of the construction of secondary water and sewerage networks, including in exceptional and justified situations, as approved by the Bank, the construction of primary water and/or wastewater facilities.

Part B: Provincial Roads

1. Carrying out of rehabilitation works (such as asphalt concrete overlaying) of selected paved roads of the Borrower's interurban primary road network listed in the Implementation Letter.
2. Carrying out of rehabilitation works (such as asphalt concrete overlaying) of selected primary semi-urban paved roads within the Conurbano Bonaerense listed in the Implementation Letter.
3. Carrying out of rehabilitation works (such as removal and replacement of existing pavements) of selected access roads to the Dock Sud port listed in the Implementation Letter.
4. Carrying out of rehabilitation works (such as resurfacing, asphalt concrete overlaying or reconstruction of the existing structure over a recycled base course) of selected access roads of the Borrower's secondary paved network listed in the Implementation Letter.

5. Carrying out of: (a) widening works (within the existing right-of-way) of selected roads of the Borrower's urban primary paved network; and (b) construction works (which works consist of replacing intersections by more efficient round-about arrangements) in selected critical black spots of the Borrower's primary paved road network, as said roads and intersections are listed in the Implementation Letter.

6. Carrying out of a routine maintenance program of the Borrower's primary unpaved road network.

7. Carrying out of widening works (within the existing right-of-way) of selected roads of the Borrower's inter-urban primary paved network, as approved by the Bank.

Part C: Drainage

Carrying out of drainage investments (such as storm sewers) in selected urban and peri-urban areas within the Borrower's territory listed in the Implementation Letter in order to mitigate flooding caused by rainfalls of high intensity and relatively short duration.

Part D: Institutional Strengthening:

1. Design and implementation of a separate institutional strengthening program for each of the following agencies: DIPSOH, DPV, the Directorate of Planning of MIHPS, the Borrower's Statistics Unit, the Borrower's Secretariat of Environmental Policy and MIHPS' Sub Secretariat of Housing, all of which consist of, *inter alia*: (a) (i) the carrying out of a comprehensive diagnosis of each agency's organizational structures, staffing characteristics and medium and long term objectives; and (ii) the preparation and implementation of an action plan which shall take into account the recommendations of said diagnosis, and the Bank's comments thereon, if any; and (b) strengthening of the environmental capacity of DIPSOH and DPV.

2. Design and implementation of a program to strengthen the capacity of the Borrower's agencies whose mandate is to regulate and control the provision of public services.

3. Design and implementation of a program to strengthen the Borrower's policy design and planning capacity, which program consists of, *inter alia*, the design of a public investment system to be established within the ME which system shall be compatible with the Guarantor's public investment system, so as to enable the ME to implement the same and link it with the MIHPS.

4. Design and implementation of a program to strengthen the Borrower's Directorate of Territorial Cadastre which program consists of, inter alia, the installation (including the digitalization) of a new model for cadastral management.

5. Design of an integrated geographical information system within the Borrower's territory to be installed in a unified data clearinghouse so that said data be accessible to multiple Borrower's ministries and/or agencies.

Part E: Pre-investment Activities for Competitiveness and Job Generation:

Design and implementation of a program for economic development and job generation in the Borrower's territory, which program consists of, inter alia: (a) the carrying out of studies to develop strategic guidelines for productive development; (b) the carrying out of sector specific studies for productive development; (c) the development of territorial policy instruments and guidelines to stimulate growth and employment; (d) the identification of physical, social and knowledge infrastructure needs for the design of future infrastructure investments; (e) the review and strengthening of regulations, policies and institutional capabilities of the Borrower to improve the competitiveness and employment opportunities and enhance the investment climate; (f) the design of a system to formulate, evaluate and prioritize investments to enhance the Borrower's efficiency in the allocation of budgetary resources to promote provincial development; and (g) the implementation of selected pilot policies resulting from the recommendations of the studies mentioned in (a) and (b) herein, all for purposes of stimulating competitiveness and employment generation.

Part F: Project Management

1. Strengthening the capacity of the UCO to perform its functions and responsibilities, as referred to in Section 3.10 (a) of this Agreement.

2. Provision of technical assistance to the Borrower to carry out the audits referred to in Sections 3.15 (a) (i) of this Agreement.

* * *

The Project is expected to be completed by January 31, 2009.

SCHEDULE 3

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: 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. Without limitation to the provisions in paragraphs A and B of this Section, the following additional provisions shall also govern the procurement of goods, works, Non-Consultant Services and consultants' services under the Project (as the case may be):

(a) procurement of goods and works shall be carried out using standard bidding documents acceptable to the Bank;

(b) all contracts for works to be procured under the Project shall contain a methodology, acceptable to the Bank, whereby the price of each said contracts shall be adjusted through the use of price adjustment formulas, in a manner acceptable to the Bank;

(c) a two-envelope bidding procedure shall not be allowed in the procurement of goods, works and Non-Consultant Services;

(d) after the public opening of bids, information relating to the examination, clarification and evaluation of bids and proposals and recommendations concerning awards shall not be disclosed to bidders or consultants or other persons not officially concerned with this process until the publication of contract award (except as provided in paragraphs 2.20 and 2.27 of the Consultant Guidelines);

(e) bidders or consultants shall not, as a condition for submitting bids or proposals and/or for contract award: (i) be required to be registered in Argentina; (ii) have a representative in Argentina; and (iii) be associated or subcontract with Argentine suppliers, contractors or consultants;

(f) no domestic preference established by Law No. 7.764 shall be allowed in the evaluation of bids for goods or works; and

(g) the invitations to bid, bidding documents, minutes of bid openings, requests for expressions of interest and the evaluation reports of bids and proposals of all goods, works, Non-Consultant Services and consultants' services, as the case may be, shall be published in a web page acceptable to the Bank.

D. 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 Non-Consultant 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.

B. Other Procurement Procedures

1. National Competitive Bidding. 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.

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.

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

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

2. Individual Consultants. 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

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 the equivalent of \$300,000 or more; (b) each contract for works estimated to cost the equivalent of \$3,000,000 or more; (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more; and (d) the first three contracts to be procured under each procurement methodology under Sections II and III of this Schedule regardless of their cost. 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 the equivalent of \$50,000 or more shall be subject to Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (5) 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, works and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount of \$8,000,000 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 \$3,000,000 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 \$24,000,000.
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.

SCHEDULE 5

Terms and Conditions of Framework Agreements

Each Framework Agreement shall contain, inter alia, the following provisions:

1. With respect to the Operator:

(a) a legal representation that, through the signing of the Framework Agreement, it has provided its written consent to permit the Borrower to carry out Water and Sewerage Subprojects located within the jurisdiction of said Operator;

(b) a legal representation that the Framework Agreement has been duly authorized or ratified by the Operator and is legally binding upon the Operator in accordance with its terms;

(c) a legal representation that it has adhered to the Regulatory Framework, if applicable;

(d) a legal representation that the Water and Sewerage Subprojects meet the eligibility criteria set forth in the Operational Manual and that said subprojects are technically feasible;

(e) the obligation of the Operator to take all necessary action within its jurisdiction (pursuant to the terms of the appropriate legal framework governing the provision of water and sanitation services of said Operator) to permit the Borrower to carry out the Water and Sewerage Subprojects;

(f) the obligation of the Operator to designate a representative to carry out jointly with the Borrower's representative the supervision of the Water and Sewerage Subprojects;

(g) the obligation of the Operator to issue a certificate of acceptance upon satisfactory completion of a Water and Sewerage Subproject, and to thereafter operate and maintain the same in accordance with the appropriate legal framework governing the provision of water and sanitation services of said Operator; and

(h) the obligation of the Operator not to amend, terminate, derogate, abrogate, waive or fail to enforce the Framework Agreement or any provision thereof without the previous consent of the Bank.

2. With respect to the Borrower:

(a) a legal representation that the Framework Agreement has been duly authorized or ratified by the Borrower and is legally binding upon the Borrower in accordance with its terms;

(b) the obligation of the Borrower to carry out the Water and Sewerage Subprojects in accordance with the pertinent provisions of the Loan Agreement;

(c) the obligation of the Borrower to finance the total cost of the carrying out of Water and Sewerage Subprojects; and

(d) upon satisfactory completion of a Water and Sewerage Subproject, and the corresponding acceptance of said fact by the Operator, the obligation of the Borrower to transfer to the Operator the possession of said Water and Sewerage Subproject.