

CONFORMED COPY

LOAN NUMBER 7352-AR

Loan Agreement

(Sub-National Governments Public Sector Modernization Project)

between

ARGENTINE REPUBLIC

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 20, 2006

LOAN NUMBER 7352 -AR

LOAN AGREEMENT

AGREEMENT, dated December 20, 2006, between ARGENTINE REPUBLIC (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes (excluding the export tax and the financial transaction tax) levied by, or in the territory of, the Borrower on the goods or services to be financed under the Loan, or on their importation (with the exception of import tariffs above 28%), manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or

otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) “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’”.

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) “CEU” means the central executing unit established within the Coordinating Sub Secretariat (*Subsecretaría de Coordinación*) under the jurisdiction of the Borrower’s Ministry of the Interior, or any successor thereto (acceptable to the Bank);

(b) “Eligible Municipality” means one or more political subdivisions within the territorial jurisdiction of any Participating Province which meet the criteria, set forth in the Operational Manual (as defined below), for participating with any given Participating Province in the carrying out of a Subproject;

(c) “Fiscal Responsibility Law” means the Borrower’s law No. 25.917 dated August 4, 2004 (duly published in the Borrower’s official gazette on August 25, 2004), which establishes, *inter alia*, a federal regime of fiscal responsibility with the objective of ensuring fiscal sustainability at the provincial level, through the setting of general rules of fiscal behavior and the provision of greater transparency in public management, and such term also includes the regulations to said law;

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

(e) “Municipal Agreement” means any of the agreements referred to in the pertinent paragraphs (c) (v) of Schedules 6 and 7 to this Agreement;

(f) “Non-Consultant Services” means expenditures incurred by the Borrower, through the CEU and/or the Participating Provinces, to finance the provision of services under the Project, which services will be bid and contracted on the basis of performance of measurable physical outputs;

(g) “Operating Costs” means reasonable recurrent expenditures, based on an annual budget previously approved by the Bank, that would not have been incurred by

the Borrower absent the Project for transportation and per-diem costs of the CEU staff, and the audit staff that will perform the audits under Section 4.01 (b) (i) of this Agreement (excluding transportation and per-diem costs of CEU and/or audit staff for commutation to their place of residence), Project administration costs (including office rent), operation and maintenance of office equipment, and non-durable goods;

(h) “Operational Manual” means the Borrower’s manual (acceptable to the Bank) dated December 1, 2005, referred to in Section 3.06 (a) of this Agreement, as the same may be amended from time to time with the agreement of the Bank;

(i) “Participating Province” means a Participating Province I and/or a Participating Province II (as the case may be);

(j) “Participating Province I” means any of the Borrower’s political subdivisions (as per title Two of the Borrower’s 1994 Constitution) which meets the eligibility criteria set forth in the Operational Manual (as defined above) to carry out any Subproject I (as defined below);

(k) “Participating Province II” means any of the Borrower’s political subdivisions (as per title Two of the Borrower’s 1994 Constitution) which meets the eligibility criteria set forth in the Operational Manual to carry out any Subproject I and/or any Subproject II (as defined below);

(l) “PIU” means any of the units (or any other unit with similar functions and responsibilities acceptable to the Bank) referred to in the pertinent paragraphs (c) (xi) of Schedules 6 and 7 to this Agreement;

(m) “PMP” means any of the Participating Provinces’ public sector modernization plans, acceptable to the Bank, as the same may be amended from time to time with the agreement of the Bank;

(n) “Procurement Plan” means the Borrower’s procurement plan, dated November 14, 2005 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 12 month periods (or longer) of Project implementation;

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

(p) “Subproject” means a Subproject I and/or a Subproject II (as the case may be);

(q) “Subproject I” means any of the investments to be carried out under Part A of the Project;

(r) “Subproject II” means any of the investments to be carried out under Part B of the Project;

(s) “Subsidiary Loan” means a loan to be provided under a Subsidiary Loan Agreement (as defined below);

(t) “Subsidiary Loan Agreement” means a Subsidiary Loan Agreement I and/or a Subsidiary Loan Agreement II (as the case may be);

(u) “Subsidiary Loan Agreement I” means any of the agreements referred to in Section 3.04 (a) of this Agreement, as the same may be amended from time to time with the agreement of the Bank; and

(v) “Subsidiary Loan Agreement II” means any of the agreements referred to in Section 3.05 (a) of this Agreement, as the same may be amended from time to time with the agreement of the Bank.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to: (a) each Participating Province I in respect of a Subproject I; and (b) each Participating Province II in respect of a Subproject I and/or Subproject II (as the case may be).

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 forty million Dollars (\$40,000,000), 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 (including Non-Consultant Services) required for the Project and to be financed out of the proceeds of the Loan, the front-end 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 September 30, 2010 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, 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 at a rate of three fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

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 March 15 and September 15 in each year.

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

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

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

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

(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. The Borrower declares its commitment to the objective of the Project, and, to this end, shall:

- (a) carry out Part C of the Project, through the CEU, with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Part of the Project; and
- (b) cause each Participating Province (through the corresponding Subsidiary Loan Agreement) to carry out the pertinent Subproject with the assistance of the pertinent Eligible Municipality (pursuant to the terms of the corresponding Municipal Agreement),

all with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering, ecological 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 each Participating Province to carry out the corresponding Subproject, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the same.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services (including Non-Consultant Services) required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through the CEU, 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, through the CEU, shall:

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

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

Section 3.04. (a) For purposes of: (i) carrying out any Subproject I by a Participating Province I; and/or (ii) providing the pertinent assistance under Part C of the Project, as needed, the Borrower, through the CEU, shall onlend the proceeds of the Loan allocated to Categories (1) (a), (2) (a) and (c), (3) (a), (c) and (d), (4) (a) and (c), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement (the Subsidiary Loan) to said Participating Province I in accordance with the Loan allocation formula set forth in the Operational Manual, and under a subsidiary loan agreement (the Subsidiary Loan Agreement I) to be entered into between the Borrower and said Participating Province I under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 6 to this Agreement.

(b) (i) The Borrower shall exercise its rights (including its rights referred to in paragraph (b) of Schedule 6 to this Agreement) and carry out its obligations under each Subsidiary Loan Agreement I in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan in respect of any Subproject I carried out or to be carried out by the pertinent Participating Province I; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Subsidiary Loan Agreement I or any provision thereof in a manner that impedes the accomplishment of the purposes mentioned in (i) herein.

Section 3.05. (a) For purposes of: (i) carrying out any Subproject I and/or Subproject II by a Participating Province II ; and/or (ii) providing the pertinent assistance under Part C of the Project, as needed, the Borrower, through the CEU, shall onlend the proceeds of the Loan allocated to Categories (1), (2), (3), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement (the Subsidiary Loan) to said Participating Province II in accordance with the Loan allocation formula set forth in the Operational Manual, and under a subsidiary loan agreement (the Subsidiary Loan Agreement II) to be entered into between the Borrower and said Participating Province II under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 7 to this Agreement.

(b) (i) The Borrower shall exercise its rights (including its rights referred to in paragraph (b) of Schedule 7 to this Agreement) and carry out its obligations under each Subsidiary Loan Agreement II in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan in respect of any Subproject I and/or Subproject II (as the case may be) carried out or to be carried out by the pertinent Participating Province II; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Subsidiary Loan Agreement II or any provision thereof in a manner that impedes the accomplishment of the purposes mentioned in (i) herein.

Section 3.06. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower , through the CEU, shall carry out the Project and/or cause the Project to be carried out in accordance with the provisions of a manual which shall include, *inter alia*: (i) the eligibility criteria for selecting Participating Provinces (which criteria shall include, *inter alia*: a financial management system and procurement capacity, all acceptable to the Bank, and the action plans to be followed by Participating Provinces to strengthen their financial management and procurement capacity); (ii) the guidelines for selecting Eligible Municipalities; (iii) the criteria for approving Subprojects; (iv) the functions and responsibilities of the CEU, and the PIUs; (v) the Loan allocation formula to be followed in making Subsidiary Loans; (vi) the terms of reference for preparing the semi-annual reports referred to in Section 3.09 (b) of this Agreement; (vii) the Project's chart of accounts, internal controls, and budgeting, accounting and financial reporting systems; (viii) the FMR formats; (ix) the terms of

reference for carrying out the Project audits under Section 4.01 (b) (i) of this Agreement; (x) the Project disbursement and procurement procedures; (xi) the Project's standard bidding documents for Subprojects; (xii) the Project indicators; (xiii) the environmental guidelines for minor works to be followed by Participating Provinces and/or Eligible Municipalities (as the case may be) in connection with the implementation of the recommendations of the pertinent environmental screenings mentioned in Section 3.07 of this Agreement; and (xiv) the functions and responsibilities of the committee referred to in Section 3.14 of 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 3.07. Without limitations to the provisions of Section 3.01 (b) of this Agreement, and in case any Subproject involves the carrying out of works, the Borrower, through the CEU, shall cause the pertinent Participating Province to, prior to the carrying out of any said works, carry out an environmental screening, and immediately thereafter, if applicable, carry out or cause to be carried out (as the case may be) the recommendations of said screening (as determined by the Bank) in order to mitigate any potential negative environmental impact, in accordance with the environmental guidelines set forth in the Operational Manual.

Section 3.08. (a) The Borrower shall operate and maintain, at all times during Project implementation, the CEU with a structure, functions and responsibilities acceptable to the Bank (as described in the Operational Manual), including, *inter alia*, the responsibility to assist the Borrower in: (i) the carrying out of Part C of the Project; and (ii) the monitoring, coordination and supervision of the overall implementation of the Project.

(b) The Borrower shall ensure that the CEU is, at all times during Project implementation, headed by a Project coordinator and assisted by professional staff (including, a financial management specialist and a procurement specialist) and administrative staff, all in numbers and with qualifications and experience acceptable to the Bank.

Section 3.09. The Borrower, through the CEU, shall:

(a) maintain, and cause each Participating Province to 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 objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than forty five days after the end of each calendar semester during Project implementation (starting with the report due in August 2006), a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar semester preceding the date of presentation of said report (including a detailed information concerning the status of procurement as of said date) and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the following calendar quarter;

(c) review with the Bank and the Participating Provinces not later than September 15 of each year of Project implementation (starting in the year 2006), 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 objective thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter; and

(d) as part of each annual review referred to in paragraph (c) above, assess with the Bank and the Participating Provinces the performance of each Participating Province in respect of compliance with the provisions of the pertinent Subsidiary Loan Agreement (in particular, if each Participating Province has complied with its obligation to provide the necessary counterpart funds, and achieved the expected targets in respect of the pertinent Subprojects). If as a result of any of said annual assessments the Bank determines that a given Participating Province has failed to comply with any of its obligations under the pertinent Subsidiary Loan Agreement, the Borrower may decide to reallocate Loan proceeds allocated to finance one or more Subprojects (for which the bidding process has not started) in respect of said Participating Province, for the benefit of one or more other Participating Provinces, provided, however, that said other Participating Provinces have: (i) demonstrated satisfactory progress in the carrying out of Subprojects; (ii) expressed their written interest in financing additional Subprojects with the proceeds of the Loan and of increasing the pertinent Subsidiary Loans; and (iii) expressed their written commitment to undertake all legal and administrative actions (acceptable to the Bank) to increase the corresponding Subsidiary Loan.

Section 3.10. The Borrower shall, not later than six months after the Effective Date, create, and thereafter maintain throughout Project implementation, a specific budget line entry in each of its annual budgets in order to keep track of the corresponding expenditures incurred during Project implementation.

Section 3.11. The Borrower shall: (a) not later than one year 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 and the Participating

Provinces' procurement processes; and (b) immediately thereafter, implement said system in a manner acceptable to the Bank.

Section 3.12. Without limitation to the provisions of Section 4.01 (a) of this Agreement, the Borrower, shall not later than one calendar year after the Effective Date, develop a new financial management information system (in a manner acceptable to the Bank), and thereafter replace the current system with said system.

Section 3.13. (a) The Borrower, through the CEU, shall: (i) not later than six calendar months after the Effective Date, prepare (under terms of reference acceptable to the Bank) and approve baseline indicators and targets to assess the impact of the Project; and (ii) immediately thereafter, assess, on an ongoing basis, the Project impact in accordance with said baseline indicators and pertinent annual targets.

(b) Without limitation to the provisions of paragraph (a) herein, the Borrower, through the CEU, shall: (i) not later than September 15, 2008: (A) carry out a mid-term impact assessment of the Project in accordance with the baseline indicators and targets referred to in paragraph (a) above; and (B) prepare and furnish to the Bank a report, acceptable to the Bank, reflecting the results of said mid-term assessment; and (ii) not later than June 15, 2010: (A) carry out a final impact assessment of the Project in accordance with the baseline indicators and targets referred to in (a) above; and (B) prepare and furnish to the Bank, a report, acceptable to the Bank, reflecting the results of said final impact assessment.

Section 3.14. The Borrower shall, not later than six months after the Effective Date, establish, and thereafter operate and maintain during Project implementation, a steering committee (*Foro de Ministros*) with functions and responsibilities acceptable to the Bank, which functions shall include, *inter alia*, the overall coordination of the Project among the Ministers of Finance of the pertinent Participating Provinces.

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 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 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 and 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:

- (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 3.09 (b) of this Agreement, the Borrower, through the CEU, 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 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.

Section 4.03. The Borrower shall ensure that each Participating Province shall have agreed (through the pertinent Subsidiary Loan Agreement) to, *inter alia*, establish adequate mechanisms and/or undertake the appropriate actions to maintain compliance, at least during Project implementation, with the provisions of the Fiscal Responsibility Law (or with the provisions of a fiscal framework consistent with the principles and parameters embedded in the Fiscal Responsibility Law in case a Participating Province has not adhered to said law), so as to achieve fiscal sustainability.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause each Participating Province to carry on its operations and conduct its affairs in accordance with sound administrative, financial, technical, social, engineering and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional event is specified, namely, that as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have

arisen which shall make it improbable that any Participating Province will be able to perform any of its obligations under the corresponding Subsidiary Loan Agreement I and/or Subsidiary Loan Agreement II.

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) at least one Subsidiary Loan Agreement has been signed by the parties thereto; and

(b) that all action, satisfactory to the Bank, has been undertaken by the Participating Province for which a Subsidiary Loan Agreement has been entered into in satisfaction of the condition referred to in paragraph (a) of this Section, in order to permit the corresponding Participating Province to carry out the procurement of goods, works and services (including Non-Consultant Services) in accordance with the provisions of this Agreement.

Section 7.02. The following are specified as additional matters, 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:

(a) that the Subsidiary Loan Agreement entered into satisfaction of the condition set forth in Section 7.01 (a) of this Agreement has been duly authorized or ratified by the Borrower and the corresponding Participating Province and is legally binding upon the Borrower and said Participating Province in accordance with its terms; and

(b) that the actions referred to in Section 7.01 (b) of this Agreement have been taken and no other action on behalf of the Participating Province in question is required to permit the procurement of goods, works and services (including Non-Consultant Services) in accordance with the provisions of this Agreement.

Section 7.03. The date March 20, 2007 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
C1086AAB, Buenos Aires
Argentina

Cable address:

MINISTERIO DE ECONOMIA
Baires

Telex:

121942-AR

Facsimile:

(5411) 4349-6239

With a copy to:

CEU
Leandro Alem 168
4to Piso, Of. 425
C1003AAO, Buenos Aires
Argentina
Facsímile: (5411) 4346-1626/1526

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 the city of Buenos Aires, Argentina, as of the day and year first above written.

ARGENTINE REPUBLIC

By/s/ Felisa Miceli

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By/s/ Axel van Trotsenburg

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 Subprojects I	690,000)	
(b) under Subprojects II	350,000)	100%
(2) Goods		
(a) under Subprojects I	7,650,000)	100% of foreign
(b) under Subprojects II	4,680,000)	expenditures and 75%
		of local expenditures
		(except as provided in
		Section 5.08 of the
		General Conditions)
(c) for the CEU under Part C.3 of the Project	18,300	100% (except as provided in Section 5.08 of the General Conditions)
(3) Consultants' services		
(a) under Subprojects I	15,160,000)	
(b) under Subprojects II	3,800,000)	
(c) under Parts C.1 and C.2 of the Project	400,000)	90%
(d) for the CEU under Part C.3 of the Project	2,080,000	100%

<u>Category</u>	Amount of the Loan Allocated (Expressed in <u>Dollars</u>)	% of Expenditures <u>to be financed</u>
(4) Non-Consultant Services		
(a) under Subprojects I	3,710,200)	
(b) under Subprojects II	1,100,000)	90%
(c) for the CEU under Part C.3 of the Project	47,500	100%
(5) Training		
(a) for the CEU under Part C.3 of the Project	40,000)	
(b) for the PIUs	20,000)	100%
(6) Operating Costs	154,000	100%
(7) Front-end fee	100,000	Amount due under Section 2.04 of this Agreement
(8) Premia for Interest Rate Caps Section and Interest Rate Collars	0	Amount due under 2.09 (c) of this Agreement
TOTAL	<u>40,000,000</u> =====	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services (including Non-Consultant Services) supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services (including Non-Consultant Services) supplied from the territory of the Borrower; and

(c) the term "Training" means expenditures (other than those for consultants' services) incurred by the Borrower and/or Participating Provinces, 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:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$4,500,000, may be made in respect of Categories (2), (3), (4) and (6) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures within one year before that date but after June 1, 2005, if the pertinent set of conditions referred to in paragraphs (b) or (c) below, as the case may be, have been met and the corresponding Participating Province has complied with the pertinent provisions of this Agreement;

(b) payments made to finance any Subproject I under the jurisdiction of a given Participating Province I and/or Eligible Municipality and/or to finance the provision of assistance under the pertinent activities Part C of the Project under Categories (1) (a), (2) (a) and (c), (3) (a), (c) and (d), (4) (a) and (c), (5) and (6) set forth in the table in paragraph 1 of this Schedule, unless:

- (i) the corresponding: (A) Subsidiary Loan Agreement I has been signed (or amended to increase the relevant Subsidiary Loan as provided in Section 3.09 (d) of this Agreement); and (B) Municipal Agreement has been signed, if applicable, by all the respective parties thereto (as the case may be);
- (ii) said Participating Province I has undertaken all action, satisfactory to the Bank, in order to permit the corresponding Participating Province I to carry out the procurement of goods, works and services (including Non-Consultant Services) to be financed under the Loan for such Subproject I in accordance with the provisions of this Agreement; and
- (iii) counsel for the Borrower and the corresponding Participating Province I, acceptable to the Bank, has each furnished to the Bank an opinion or opinions, acceptable to the Bank, providing that: (A) the pertinent Subsidiary Loan Agreement I (or its amendment thereto) has been duly authorized or ratified by the Borrower and the corresponding Participating Province I, and is

legally binding upon the Borrower and said Participating Province I in accordance with its terms; and (B) that all action referred to in (ii) above has been undertaken, and that no other action by said Participating Province I is required, to permit the procurement of goods, works and services (including Non-Consultant Services) in accordance with the provisions of this Agreement; and

(c) payments made to finance any Subproject I and/or Subproject II under the jurisdiction of a given Participating Province II and/or Eligible Municipality and/or to finance the provision of assistance under the pertinent activities Part C of the Project under Categories (1), (2), (3), (4), (5) and (6) set forth in the table in paragraph 1 of this Schedule, unless:

- (i) the corresponding: (A) Subsidiary Loan Agreement II has been signed (or amended to increase the relevant Subsidiary Loan as provided in Section 3.09 (d) of this Agreement); and (B) Municipal Agreement has been signed, if applicable, by all the respective parties thereto (as the case may be);
- (ii) said Participating Province II has undertaken all action, satisfactory to the Bank, in order to permit the corresponding Participating Province II to carry out the procurement of goods, works and services (including Non-Consultant Services) to be financed under the Loan for such Subproject I and/or Subproject II in accordance with the provisions of this Agreement; and
- (iii) counsel for the Borrower and the corresponding Participating Province II, acceptable to the Bank, has each furnished to the Bank an opinion or opinions, acceptable to the Bank, providing that: (A) the pertinent Subsidiary Loan Agreement II (or its amendment thereto) has been duly authorized or ratified by the Borrower and the corresponding Participating Province II, and is legally binding upon the Borrower and said Participating Province II in accordance with its terms; and (B) that all action referred to in (ii) above has been undertaken, and that no other action by said Participating Province II is required, to permit the procurement of goods, works and services (including Non-Consultant Services) in accordance with the provisions of this Agreement.

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

Non-Consultant Services costing less than \$350,000 equivalent per contract with the exception of the first two contracts for goods and Non-Consultant Services procured under Parts B.1 (a) and B.2 of Section II of Schedule 4 to this Agreement; (b) works costing less than \$500,000 equivalent per contract with the exception of the first two contracts for works procured under Part B.2 of Section II of Schedule 4 to this Agreement; (c) services of individual consultants with the exception of each contract for services procured under sole-source basis; (d) services of consulting firms under contracts costing less than \$350,000 equivalent per contract with the exception of each contract for services procured under sole-source basis; and (e) Training and Operating Costs set forth in Categories (5) and (6) of the table in paragraph 1 of this Schedule, respectively, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the capabilities of the Participating Provinces and Eligible Municipalities to more effectively manage their resources and improve the quality of their government administrative services.

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 objective:

Part A: Basic Module

Carrying out of one or more investments (as approved by the Bank) set forth in the pertinent PMP, which investments shall be classified as:

(a) provincial investments, said investments to be implemented in Participating Provinces I and/or Participating Provinces II (as the case may be), and which consist of, *inter alia*: (i) the upgrading of the cadastre system; (ii) the horizontal integration of the cadastre system with the property registry and the tax administration systems so as to expand said systems' potential fiscal impact in respect of the pertinent Participating Province; (iii) the upgrading of the public registry system; (iv) (A) the design, implementation and maintenance of an advanced integral management information system to support all aspects of the provincial tax administration system; (B) the design of: (1) a proposed legal framework to implement an e-tax filing system; and (2) the technological tools to implement the system referred to in (1) herein; and (C) the design of a proposed legal framework to implement an integrated tax administration system; (v) the design and implementation of an integrated financial system so as to provide coherent and reliable information for resource planning (budgeting), execution of provincial public expenditures (treasury) and registration of said expenditures (accounting); (vi) the modernization of the human resource management information system, including the provision of training to civil service staff in charge of operating said system; and (vii) the carrying out of a pilot prevention program on public safety in one Participating Province, which program consists of: (A) the carrying out of studies on crime patterns; (B) the development and implementation of plans, outside the criminal law enforcement sphere, to improve public safety (which plans shall take into account the recommendations of said studies, and the Bank comments thereon, if any); and (C) the evaluation and dissemination of good practices of said program.

(b) municipal investments (aimed at supporting the vertical integration of core provincial management systems), said investments to be implemented in Eligible

Municipalities, and which consist of, *inter alia*: (i) the adoption of an integrated tax administration system in order to improve municipal tax collection and to work jointly with the pertinent provincial tax administration agency; (ii) design and implementation of an integrated financial management system, including the creation of an information flow between the pertinent Participating Province and municipalities and vice versa, so as to provide coherent and reliable information for resource planning (budgeting), execution of municipal public expenditures (treasury) and registration of said expenditures (accounting); and (iii) the design and implementation of municipal cadastre systems which are fully integrated with the pertinent provincial cadastre system, including the design of mechanisms to ensure the periodic exchange of information of cadastre data between the pertinent Participating Province and Eligible Municipality and vice versa, so as to ensure the periodic updating of cadastre information.

Part B: Advanced Module

Carrying out of one or more investments (as approved by the Bank) set forth in the pertinent PMP, which investments shall be classified as:

(a) provincial investments, said investments to be implemented in Participating Provinces II, and which consist of activities aimed at the modernization of key areas within provincial administrations (other than those to be financed under the pertinent Subprojects I), including e-procurement, judicial modernization, advanced human-resource modernization (such as job reclassification and functional review), control and auditing, and business processes; and

(b) municipal investments, said investments to be implemented in Eligible Municipalities, and which consist of, *inter alia*: (i) activities aimed at strengthening municipal governments in areas such as municipal budgeting, capital investment planning, and project evaluation; (ii) activities identified by the pertinent Participating Province II to enhance municipal performance; and (iii) the design and implementation of systems of municipal indicators describing characteristics such as fiscal, territorial, administrative, and service-provision performance for the Eligible Municipalities in the pertinent Participating Province II.

Part C: Project Management

1. Provision of technical assistance to Participating Provinces in the preparation of Subprojects.
2. Strengthening of the Participating Provinces' operational capacity to monitor and supervise the implementation of the pertinent Subprojects.

3. Strengthening of the Borrower's operational capacity to monitor and supervise the overall implementation of the Project.

* * *

The Project is expected to be completed by March 31, 2010.

SCHEDULE 3

Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
On each March 15 and September 15 Beginning March 15, 2011 through September 15, 2020	5%

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 Non-Consultant 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, works and Non-Consultant Services 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) 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 the web page of the Borrower's Office of National Procurement (*Oficina Nacional de Contrataciones*);

(g) the provisions set forth in paragraphs 2.49 through 2.54 and 2.59 of the Procurement Guidelines shall also be applicable to contracts for goods and Non Consultant Services to be procured under National Competitive Bidding procedures;

(h) the publication of bidders in one or more specialized magazines shall not be used by the Borrower and/or Participating Province (as the case may be) in determining if the bidder whose bid has been determined to be the lowest evaluated bid has the capability and resources to effectively carry out the contract as offered in the bid, as referred to in the provision set forth in paragraph 2.58 of the Procurement Guidelines. The provision set forth in paragraph 2.58 of the Procurement Guidelines (including the limitation set forth herein) shall also be applicable to contracts for goods and Non-Consultant Services to be procured under National Competitive Bidding procedures; and

(i) the types of contracts described in Section IV of the Consultant Guidelines (including the important provisions to be included in said contracts) shall be the only type of contracts to be used by the Borrower and/or the Participating Provinces (as the case may be) in connection with the contracting of consultants' services provided by a firm and to be financed with the proceeds of the Loan.

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 (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 and Non-Consultant Services estimated to cost less than \$350,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding.

(b) For purposes of this paragraph, and without limitation to the provisions of paragraphs 3.3 and 3.4 of the Procurement Guidelines, the term National Competitive Bidding means the pertinent competitive bidding procedures used by the Borrower and/or the Participating Provinces for public procurement within their territorial jurisdiction (as the case may be).

2. Shopping. (a) Goods and Non-Consultant Services estimated to cost less than \$100,000 equivalent per contract; and (b) works estimated to cost less than \$500,000 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. 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. 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.

3. 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.

4. 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

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 and Non-Consultant Services estimated to cost the equivalent of 350,000 or more; (b) the first two contracts for goods and Non-Consultant Services procured on the basis of National Competitive Bidding; (c) the first two contracts for works procured on the basis of Shopping; (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$350,000 or more; (e) each contract for consultants' services provided by a firm on the basis of Single-Source Selection; and (f) each contract for consultants' services provided by an individual on a sole-source basis. 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 (6) 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 (including Non-Consultant 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 \$3,000,000 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 \$2,000,000 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 \$10,000,000.
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 respective 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 6**Terms and Conditions of Subsidiary Loan Agreements I**

Each Subsidiary Loan Agreement I shall contain, *inter alia*, the following provisions:

- (a) the obligation of the Borrower:
 - (i) to promptly disburse to each Participating Province I the proceeds of the corresponding Subsidiary Loan in a manner acceptable to the Bank;
 - (ii) to allocate the front-end fee and commitment charge applicable to the Loan pursuant to Sections 2.04 and 2.05 of this Agreement proportionately among each Participating Province I; and
 - (iii) to provide the necessary assistance to each Participating Province I, as needed, under Part C of the Project;

- (b) the right of the Borrower to take remedial actions against the pertinent Participating Province I in case said Participating Province I shall have failed to comply with any of its obligations under the pertinent Subsidiary Loan Agreement I in respect of any Subproject I (which actions may include, *inter alia*, the partial or total suspension and/or cancellation of the proceeds of the pertinent Subsidiary Loan (as the case may be), all as previously agreed with the Bank); and

- (c) the obligation of each Participating Province I:
 - (i) to use the Subsidiary Loan for the financing of: (A) Subprojects I; and (B) a proportionate share of the cost of the acquisition of goods and provision of consultants' services and training (including the appropriate Operating Costs) under Part C of the Project, if needed;
 - (ii) to provide the funds, facilities, services and other resources, necessary or appropriate to carry out the corresponding Subproject I;

- (iii) to repay the proceeds of the Subsidiary Loan (which Subsidiary Loan shall be denominated in Dollars equivalent and carry the same interest rate applicable to the Loan pursuant to Section 2.06 of this Agreement) withdrawn by the Participating Province I (together with interest and other charges thereon): (A) in the same currency in which the corresponding principal amount of the Loan and interest and other charges thereon are to be repaid by the Borrower to the Bank pursuant to Article III of the General Conditions; and (B) under repayment terms (including payment of interest and commitment charges) that shall coincide with those repayment terms set forth in this Agreement;
- (iv) to carry out the pertinent Subprojects I in accordance with the pertinent provisions of this Agreement, and to achieve the targets set forth in each Subproject I;
- (v) if applicable, to enter into an agreement with the Eligible Municipality under terms and conditions, acceptable to the Bank, which terms include, *inter alia*, the obligation of: (A) the Participating Province to exercise its rights and carry out its obligations under each Municipal Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (B) said Eligible Municipality to: (1) assist said Participating Province I in the carrying out of the pertinent Subproject I; (2) comply with the pertinent provisions of this Agreement; and (3) achieve the targets set forth for the pertinent Subproject I;
- (vi) to comply with, or caused to be complied, the obligations referred to in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 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 said Subprojects I;
- (vii) to take or permit to be taken all action to enable the Borrower to comply with its obligations under Sections 3.01 (b), 3.02, 3.04, 3.06, 3.07, 3.09, 3.11, 3.13, 3.14 , 4.01, 4.02, 4.03 and 5.01 of this Agreement;
- (viii) to participate in the reviews referred to in Section 3.09 (c) of this Agreement;

- (ix) to maintain compliance (including the obligation to establish adequate mechanisms and/or undertake the appropriate actions to maintain compliance), at least during Project implementation, with the provisions of the Fiscal Responsibility Law (or with the provisions of a fiscal framework consistent with the principles and parameters embedded in the Fiscal Responsibility Law in case a Participating Province I has not adhered to said law), so as to achieve fiscal sustainability;
- (x) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Subsidiary Loan Agreement I and/or the pertinent Municipal Agreement or any provision thereof; and
- (xi) (A) to operate and maintain (or cause to be operated and maintained) at all times during Project implementation, a provincial implementation unit, with a structure, functions and responsibilities acceptable to the Bank; and (B) to ensure that the PIU is, at all times during Project implementation, headed by a Project coordinator and assisted by professional staff (including a procurement specialist) and administrative staff, all in numbers and with qualifications and experience acceptable to the Bank.

SCHEDULE 7**Terms and Conditions of Subsidiary Loan Agreements II**

Each Subsidiary Loan Agreement II shall contain, *inter alia*, the following provisions:

- (a) the obligation of the Borrower:
 - (i) to promptly disburse to each Participating Province II the proceeds of the corresponding Subsidiary Loan in a manner acceptable to the Bank;
 - (ii) to allocate the front-end fee and commitment charge applicable to the Loan pursuant to Sections 2.04 and 2.05 of this Agreement proportionately among each Participating Province II;
 - (iii) to provide the necessary assistance to each Participating Province II, as needed, under Part C of the Project;

- (b) the right of the Borrower to take remedial actions against the pertinent Participating Province II in case said Participating Province II shall have failed to comply with any of its obligations under the pertinent Subsidiary Loan Agreement I in respect of any Subproject I and/or Subproject II (which actions may include, *inter alia*, the partial or total suspension and/or cancellation of the proceeds of the pertinent Subsidiary Loan (as the case may be), all as previously agreed with the Bank); and

- (c) the obligation of each Participating Province II:
 - (i) to use the Subsidiary Loan for the financing of: (A) Subprojects I and/or Subprojects II; and (B) a proportionate share of the cost of the acquisition of goods and provision of consultants' services and training (including the appropriate Operating Costs) under Part C of the Project, if needed;
 - (ii) to provide the funds, facilities, services and other resources, necessary or appropriate to carry out the corresponding Subproject I and/or Subproject II;
 - (iii) to repay the proceeds of the Subsidiary Loan (which Subsidiary Loan shall be denominated in Dollars equivalent and carry the

same interest rate applicable to the Loan pursuant to Section 2.06 of this Agreement) withdrawn by the Participating Province II (together with interest and other charges thereon): (A) in the same currency in which the corresponding principal amount of the Loan and interest and other charges thereon are to be repaid by the Borrower to the Bank pursuant to Article III of the General Conditions; and (B) under repayment terms (including payment of interest and commitment charges) that shall coincide with those repayment terms set forth in this Agreement;

- (iv) to carry out the pertinent Subprojects I and/or Subprojects II in accordance with the pertinent provisions of this Agreement, and to achieve the targets set forth for each Subproject I and/or Subproject II;
- (v) if applicable, to enter into an agreement with the Eligible Municipality under terms and conditions, acceptable to the Bank, which terms include, *inter alia*, the obligation of: (A) the Participating Province II to exercise its rights and carry out its obligations under each Municipal Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (B) said Eligible Municipality to: (1) assist said Participating Province II in the carrying out of the pertinent Subproject I and/or Subproject II; (2) comply with the pertinent provisions of this Agreement; and (3) achieve the targets set forth in the pertinent Subproject I and/or Subproject II;
- (vi) to comply with, or caused to be complied, the obligations referred to in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 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 said Subprojects;
- (vii) to take or permit to be taken all action to enable the Borrower to comply with its obligations under Sections 3.01 (b), 3.02, 3.05, 3.06, 3.07, 3.09, 3.11, 3.13, 3.14 , 4.01, 4.02, 4.03 and 5.01 of this Agreement;
- (viii) to participate in the reviews referred to in Section 3.09 (c) of this Agreement;

- (ix) to maintain compliance (including the obligation to establish adequate mechanisms and/or undertake the appropriate actions to maintain compliance), at least during Project implementation, with the provisions of the Fiscal Responsibility Law (or with the provisions of a fiscal framework consistent with the principles and parameters embedded in the Fiscal Responsibility Law in case a Participating Province I has not adhered to said law), so as to achieve fiscal sustainability;
- (x) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Subsidiary Loan Agreement II and/or the pertinent Municipal Agreement or any provision thereof; and
- (xi) (A) to operate and maintain (or cause to be operated and maintained) at all times during Project implementation, a provincial implementation unit, with a structure, functions and responsibilities acceptable to the Bank; and (B) to ensure that the PIU is, at all times during Project implementation, headed by a Project coordinator and assisted by professional staff (including a procurement specialist) and administrative staff, all in numbers and with qualifications and experience acceptable to the Bank.