

CONFORMED COPY

LOAN NUMBER 7169-GU

Loan Agreement

(Second Rural and Main Roads Project)

between

REPUBLIC OF GUATEMALA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated October 27, 2004

LOAN NUMBER 7169 -GU

LOAN AGREEMENT

AGREEMENT, dated October 27, 2004, between THE REPUBLIC OF GUATEMALA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) 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;

(B) the Borrower has enacted the “*Ley General de Descentralización*” (Decentralization Law) (Decree No. 14-2002) dated July 1, 2002, with the objective of promoting financial and administrative decentralization by transferring power from its central government to its municipalities;

(C) the Borrower has enacted the “*Código Municipal*” (Municipal Code) (Decree No. 12-2002) dated July 1, 2002, with the objective of, *inter alia*, regulating the association of municipalities to promote administrative decentralization and rural development;

(D) the Borrower is developing a rural roads and transport strategy (the Rural Roads and Transport Strategy) with the objective of addressing, *inter alia*, long term environmental and social sustainability issues in the rural road sector through: (i) the definition of an environmental and social policy for rural roads; (ii) the improvement of road design and construction practices through the application of environmental manuals for design, construction and enhanced supervision; (iii) the promotion of community involvement and participation in the definition of priorities for project development; (iv) the ensuring of a sustainable maintenance of rehabilitated roads through community enterprises and other options to be defined in this strategy; and (v) the strengthening of the environmental management capacity of key actors involved; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Annual Work Program” means any of the annual work programs referred to in Section 3.08 (a) of this Agreement;

(b) “Associations” means collectively the Association of Municipalities in Southwest Huehuetenango (*Mancomunidad de Municipios del Sur Occidente de Huehuetenango* - MAMSOHUE) and the Association of Municipalities of the Huista Region of Huehuetenango (*Mancomunidad de la Región Huista de Huehuetenango* - HUISTA), both duly established as separate entities with legal personality in accordance with the Borrower’s internal legislation;

(c) “Association Agreement” means each agreement to be entered into between INFOM (as hereinafter defined) and an Association which shall stipulate, *inter alia*, the terms and conditions under which INFOM and the Association shall agree to coordinate the carrying out of Parts A and C.1 of the Project;

(d) “BANGUAT” means the Borrower’s central bank;

(e) “Departmental Roads Subproject” means a project which consists of the rehabilitation and/or improvement of selected main, secondary and departmental roads (as described in Part B of Schedule 2 to this Agreement) and is approved in accordance with the criteria set forth in the DGC Operational Manual;

(f) “DGC” means *Dirección General de Caminos*, the Borrower’s Directorate of Roads;

(g) “DGC Operational Manual” means DGC’s operational manual for the Project referred to in Section 3.02 (b) (i) of this Agreement;

(h) “DGC PCU”, “COFINEX” means the Project Coordination Unit established within DGC;

(i) “Displaced Persons” means persons who, on account of the execution of a particular Subproject (as hereinafter defined), had or would have their: (i) standard of living adversely affected; or (ii) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and “Displaced Person” means any Displaced Persons;

(j) “Environmental Management Plan” means the Borrower’s environmental impact framework for the Project, dated December 17, 2002, that contains specific environmental rules and procedures for Project implementation;

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

(l) “INFOM” means *Instituto de Fomento Municipal*, the Borrower’s Municipal Development Institute;

(m) “INFOM Operational Manual” means INFOM’s operational manual for the Project referred to in Section 3.02 (b) (ii) of this Agreement;

(n) “INFOM PCU” means the Project Coordination Unit established within INFOM;

(o) “Municipal Rural Roads Subproject” means a project which consists of the rehabilitation, improvement and/or maintenance of selected municipal rural roads (as described in Part A of Schedule 2 to this Agreement) and is approved in accordance with the criteria set forth in the INFOM Operational Manual;

(p) “Peace Accords” means the peace accords signed by the Borrower, dated December 29, 1996;

(q) “Performance Indicators” means the indicators, set forth in the Supplemental Letter (as hereinafter defined), for monitoring and evaluating progress towards the attainment of Project objectives;

(r) “Project Implementation Plan” means a plan for the implementation of the Project;

(s) “RMRP I” means the Rural and Main Roads Project financed in part with the proceeds of Loan No. 4260-GU as provided in the Loan Agreement entered into between the Borrower and the Bank on September 11, 1998;

(t) “Social Management Plan” means the Borrower’s social management plan for the Project, dated January 14, 2003, that contains the rules and procedures for mitigating potential impacts on the livelihood of communities in the Project area;

(u) “Special Accounts” means collectively the Special Account A and the Special Account B;

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

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

(x) “Subproject” means a Departmental Rural Roads Subproject or a Municipal Rural Roads Subproject or both;

(y) “Subsidiary Agreement” means the agreement to be entered into between the Borrower and INFOM pursuant to Section 3.02 (d) of this Agreement which shall stipulate, *inter alia*, the terms and conditions under which INFOM and the Borrower shall agree to coordinate the carrying out of Parts A and C.1 of the Project, as the same may be amended from time to time; and

(z) “Supplemental Letter” means the letter of even date herewith from the Borrower and INFOM to the Bank setting forth: (i) the Performance Indicators; (ii) the principles and guidelines to be followed by the Borrower and INFOM in the preparation of resettlement action plans as referred to in Section 3.10 of this Agreement; and (iii) the scope of the mid-term review referred to in Section 3.08 (b) of this Agreement, as such letter may be amended from time to time with the agreement of the Bank.

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 six million seven hundred thousand Dollars (\$46,700,000), 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 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) (i) The Borrower may, for the purposes of: (A) Parts A and C.1 of the Project, open and maintain in Dollars a separate special deposit account (the Special Account A); and (B) Parts B and C.2 of the Project, open and maintain in Dollars a separate special deposit account (the Special Account B), both in BANGUAT and on terms and conditions satisfactory to the Bank; and
- (ii) deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee. Such fee shall be payable no later than sixty (60) days after the Effective Date.

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

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

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on February 15 and August 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. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall:

- (i) through DGC carry out Parts B and C.2 of the Project with due diligence and efficiency and in conformity with appropriate managerial, administrative, financial, legal, ecological, environmental and conservation practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and

- (ii) (A) cause INFOM pursuant to the provisions of the Subsidiary Agreement to:
 - (I) carry out Parts A and C.1 of the Project; and
 - (II) cause each Association, pursuant to the provisions of its Association Agreement with INFOM, to assist in the carrying out of Part A and C.1 of the Project within the Association's territory, all with due diligence and efficiency and in conformity with appropriate managerial, administrative, financial, legal, ecological, environmental and conservation practices;
- (B) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable INFOM to carry out Parts A and C.1 of the Project and the Associations to assist in the carrying out of Parts A and C.1 of the Project; and
- (C) not take or permit to be taken any action which would prevent or interfere with the carrying out of such Parts of the Project by INFOM and the Associations.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank may otherwise agree, the Borrower (through DGC) shall, and shall cause INFOM to, carry out the Project in accordance with: (i) the Environmental Management Plan; (ii) the Social Management Plan; (iii) the DGC Operational Manual; (iv) the INFOM Operational Manual; and (v) the Project Implementation Plan, as applicable, so as to achieve the Performance Indicators.

(b) The Borrower shall: (i) through DGC, issue an operational manual, satisfactory to the Bank, containing, *inter alia*, specific provisions on detailed arrangements for the carrying out of Parts B and C.2 of the Project; and (ii) cause INFOM to issue an operational manual, satisfactory to the Bank, containing, *inter alia*, specific provisions on: (A) detailed arrangements for the carrying out of Parts A and C.1 of the Project; (B) terms and conditions of the Association Agreement; and (C) terms and conditions of the Subsidiary Agreement.

(c) If any provision of the DGC Operational Manual or INFOM Operational Manual or the Project Implementation Plan is inconsistent with a provision of this Agreement, the provisions of this Agreement shall prevail.

(d) The Borrower shall transfer, on a grant basis, the proceeds of the Loan allocated to Parts A and C.1 of the Project to INFOM under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and INFOM, under terms and conditions acceptable to the Bank, which shall include, *inter alia*, INFOM's obligation to enable the Borrower to comply with its obligations under Article IV of this Agreement with regard to Parts A and C.1 of the Project.

(e) The Borrower shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the Subsidiary Agreement or any provision thereof.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower (through DGC) shall, and shall cause INFOM to:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six 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 and INFOM on said plan.

Section 3.05. (a) The Borrower (through DGC) shall: (i) maintain and continue to operate during the implementation of the Project the DGC PCU; and (ii) cause INFOM to maintain and continue to operate during the implementation of the Project the INFOM PCU (pursuant to the Subsidiary Agreement), both with functions and responsibilities satisfactory to the Bank, including, *inter alia*, the responsibility to coordinate the implementation of the Project.

(b) The Borrower shall ensure that the DGC PCU and the INFOM PCU (pursuant to the Subsidiary Agreement) are staffed at all times during the implementation of the Project with core professional staff in numbers and with experience and qualifications acceptable to the Bank, operating under terms of reference satisfactory to the Bank, and selected in accordance with competitive and transparent procedures satisfactory to the Bank. Any change of key staff in the DGC PCU and the INFOM PCU shall only be made with the Bank's prior agreement.

Section 3.06. The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objectives thereof.

Section 3.07. Without limitation to the provisions of Section 9.06 of the General Conditions, the Borrower (through DGC) shall, and shall cause INFOM to, not later than thirty days after the conclusion of each semester during the implementation of the Project, starting for the semester which begins on January and ends on June, 2005, prepare and furnish to the Bank a report of such scope and in such detail as the Bank shall reasonably request with respect to the progress made in carrying out the Project during the semester immediately preceding the date of presentation of such report.

Section 3.08. (a) Without limitation to the provisions of Section 9.01 of the General Conditions, the Borrower (through DGC) shall, and shall cause INFOM to, not later than July of each year of Project implementation, starting in July 2005, review jointly with the Bank and the Associations the progress made in: (i) carrying out the Project; and (ii) achieving the objectives of the Project, based on the Performance Indicators. As part of each such review the Bank may require the Borrower (through DGC) to prepare, and cause INFOM to prepare, an annual work program, satisfactory to the Bank, to make adjustments to the Project Implementation Plan. In such event, the Borrower (through DGC) shall, and shall cause INFOM to, not later than forty five days after the conclusion of each such review furnish the Annual Work Program to the Bank and shall thereafter carry out, or cause to be carried out, the Annual Work Program in accordance with its terms.

(b) As part of the annual review to be held not later than March, 2007, the Borrower shall carry out with the Bank and INFOM a Project implementation mid-term review of such scope as set forth in the Supplemental Letter.

Section 3.09. (a) Prior to the approval of any proposed civil work to be financed out of the proceeds of the Loan, the Borrower (through DGC) shall, and shall cause INFOM to, apply the Environmental Management Plan, in order to:

- (i) carry out an environmental screening and assessment of such proposed civil work, as prescribed in the DGC Operational Manual and INFOM Operational Manual; and
- (ii) prepare recommendations for the prevention, mitigation and remediation of any potential environmental damage arising from the implementation of such proposed civil works.

(b) During the implementation of any civil works, the Borrower (through DGC) shall, and shall cause INFOM to, have the recommendations of the environmental

assessment referred to in subparagraph (a) (i) above carried out, as prescribed in the DGC Operational Manual and the INFOM Operational Manual.

Section 3.10. In the event that the findings of the environmental assessment to be carried out as part of the identification of each Subproject indicate that resettlement of population is required in the area in which a particular Subproject will be carried out and/or that individuals living in such area will become Displaced Persons as a result of the carrying out of such Subproject, the Borrower (through DGC) shall, and shall cause INFOM to, prior to the carrying out of such Subproject: (i) prepare (in accordance with the principles and guidelines set forth in the Supplemental Letter) and furnish to the Bank a resettlement action plan for such Displaced Persons, satisfactory to the Bank; and (ii) promptly thereafter, carry out or cause to be carried out the corresponding resettlement action plan referred to in (i) herein in accordance with its terms.

Section 3.11 The Borrower (through DGC) shall, and shall cause INFOM to, if applicable, include in the bidding documents for the carrying out of each Departmental Rural Roads Subproject and Municipal Rural Roads Subproject, as the case may be, the obligation of the bidder to take prior to the initiation of any works under such Subproject the necessary actions to address any potential negative environmental impact identified in the respective environmental assessment to be carried out as part of the identification of each such subproject.

Section 3.12. The Borrower (through DGC) shall, and shall cause INFOM to, prior to the carrying out of a Subproject by the Borrower (through DGC) or INFOM, as the case may be, carry out consultations in accordance with the Peace Accords, in a manner acceptable to the Bank, with the population living in the area in which such Subproject will be carried out.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower (through DGC) shall, and shall cause INFOM to, establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower (through DGC) shall, and shall cause INFOM to:
 - (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.07 of this Agreement, the Borrower (through DGC) shall, and shall cause INFOM to, 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.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that INFOM has failed to perform any of its obligations under the Subsidiary Agreement.

ARTICLE VI

Effective Date; Termination

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

- (a) that the DGC Operational Manual and the INFOM Operational Manual have been issued and put into effect;
- (b) that the DGC PCU and the INFOM PCU have been properly staffed as set forth in Section 3.05 (b) of this Agreement;
- (c) that the Subsidiary Agreement has been executed by the parties thereto;
- (d) that the Association Agreements have been executed by the parties thereto; and

(e) that financial management arrangements, satisfactory to the Bank, shall have been established for the Project and become operational;

Section 6.02. The date January 24, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministerio de Finanzas Públicas
8a Avenida y 21 Calle
Centro Cívico, Zona 1
Guatemala, Guatemala, C.A.

Telephone:

(502) 22485002
(502) 22485003

Fax:

(502) 22485005

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Fax:

(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 Guatemala City, Guatemala, as of the day and year first above written.

REPUBLIC OF GUATEMALA

By /s/ María Antonieta de Bonilla
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Neeta G. Sirur
Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Works:		
(a) Under Parts A.1 A.3, A.4 and A.5 of the Project	14,620,000	75%
(b) Under Parts B.1, B.2 and B.3 of the Project	17,350,000	75%
(2) Goods:		
(a) Under Part C.1 of the Project	250,000	100% of foreign expenditures and 80% of local expenditures
(b) Under Part C.2 of the Project	460,000	100 % of foreign expenditures and 80% of local expenditures
(3) Consultants' services and training (including audits):		
(a) Under Part C.1 of the Project	3,750,000	88%
(b) Under Part C.2 of the Project	4,540,000	88%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(4) Premia for Interest Rate Caps and Interest Rate Collars	- 0 -	Amount due under Section 2.09 (c) of this Agreement
(5) Front-end fee	467,000	Amount due under Section 2.04 of this Agreement
(6) Unallocated	5,263,000	
TOTAL	<u>46,700,000</u>	

2. For the purposes of this Schedule:

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

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

(c) the term “training” means the non-consultant expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including reasonable travel costs and per diem of trainees, rental of training facilities and equipment, and training materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure (under such terms and conditions as the Bank shall specify by notice to the Borrower) for:

(a) contracts for works and goods costing less than \$250,000 equivalent;

(b) consulting firms under contracts costing less than \$100,000 equivalent;

(c) individual consultants under contracts costing less than \$50,000 equivalent; and

(d) training.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce rural poverty and build social cohesion by improving and maintaining access in rural areas to markets, schools, health centers and other social and economic infrastructure through the improvement of the Borrower's main, secondary and rural road network.

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: Rural Roads Network

1. Rehabilitation and improvement of: (a) about 830 kilometers of core rural roads network; and (b) selected segments of non core rural roads, both located in the Associations' territories.
2. Maintenance of rural roads rehabilitated under RMRP I and roads to be rehabilitated under the Project.
3. Design and implementation of a system of associative micro-enterprises to perform routine maintenance to about 350 kilometers of rural roads rehabilitated under RMRP I.
4. Rehabilitation and improvement of trails and paths, and the construction of footbridges located in the RMRP I's project area.
5. Rehabilitation and improvement of selected road sections located in the Associations' territory using local labor-based construction methods.

Part B: Secondary and Main Roads Network

1. Rehabilitation and improvement of about 65 kilometers of the San Sebastian Huehuetenango – La Mesilla section of the Central American Highway 1.
2. Upgrading of about 32 kilometers of unpaved secondary and departmental roads in the Associations' territories.
3. Rehabilitation and improvement of about 175 kilometers of unpaved departmental roads located in the Associations' territories.
4. Maintenance of rehabilitated and/or paved departmental roads under the Project.

Part C: Institutional Strengthening for Decentralized Rural Road Administration

1. Provision of technical assistance, training (including audits) and equipment (as necessary) to strengthen INFOM's capacity to perform its duties, responsibilities and obligations under the Project, including provision of technical assistance, training and equipment (as necessary) to the Associations (including their municipalities and their technical units) in order to assist them with the implementation of Part A of the Project.

2. Provision of technical assistance and training (including audits) to strengthen DGC's capacity to perform its duties, responsibilities and obligations under the Project, including the design and supervision of the works carried out under Part B of the Project.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each August 15 and February 15	
Beginning August 15, 2008 through August 15, 2019	4.17%
On February 15, 2020	4.09%

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

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

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

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

Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

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

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

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A.: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B.: International Competitive Bidding

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

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

(a) Prequalification

Bidders for works estimated to cost more than \$10,000,000 shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods

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

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C.: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost \$250,000 equivalent or more but less than \$1,500,000 equivalent per contract, up to an aggregate amount not to exceed \$9,350,000

equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods estimated to cost \$25,000 equivalent or more but less than \$150,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$40,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Community Participation

Works required for Parts A1, A4 and A5 of the Project estimated to cost less than \$50,000 equivalent per contract shall be procured in accordance with the procedures acceptable to the Bank (including direct contracting and shopping in accordance with the provisions of paragraph 3.7 of the Guidelines) all as set forth in the Operational Manual.

4. Procurement of Small Works

Works estimated to cost \$75,000 equivalent or more but less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$2,300,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from five (5) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods and works to be procured in accordance with the procedures referred to in Part B and Part C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first 2 contracts to be procured in accordance with the procedures referred to in Parts C.4 above; and (ii) the first contract to be procured in accordance with the procedures referred to in each of Parts C.2 and C.3 above, the following procedures shall apply:

- (i) prior to the selection of the supplier or contractor, for the execution of such contract, the Borrower (through DGC) shall, and shall cause INFOM to, provide to the Bank a report on the comparison and evaluation of quotations received.
- (ii) prior to the execution of any contract, the Borrower (through DGC) shall, and shall cause INFOM to, provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of

the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services rendered by consulting firms under Parts C of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Services rendered by consulting firms under Part C of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services rendered by consulting firms under Part C of the Project estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

4. Single Source Selection

Services rendered by consulting firms under Part C of the Project which are estimated to cost less than \$30,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

5. Individual Consultants

Services rendered by individual consultants: (a) under Part C of the Project for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (b) under Part C of the Project may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, and the terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

Section III. Special Provisions

Without limitation upon any of the provisions of this Schedule the Borrower (through DGC) shall, and shall cause INFOM to:

1. in a period not longer than forty (45) calendar days, after a proposal for the procurement of goods, works and services under the Project is submitted, evaluate said proposal; and

2. in a period not longer than seventy five (75) calendar days, after the Bank has issued the respective non objection to the above referenced proposal (contracts subject to prior review as provided in this Schedule), sign the respective contract.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means, for Special Account A, Categories (1) (a), (2) (a) and (3) (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Part A and C.1 of the Project and, for Special Account B, Categories (1) (b), (2) (b) and (3) (b) set forth in said table in respect of Part B and C.2 of the Project;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services required 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 \$1,600,000 in respect of Special Account A and an amount equivalent to \$1,900,000 in respect of Special Account B, to be withdrawn from the Loan Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Bank requests for deposits into the respective 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 respective 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 respective 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 respective 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 any 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 Accounts;

(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 respective Special Account, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for said eligible Categories, 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 said eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the 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 any 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 respective 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 any 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 any 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 Accounts.

(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.