

CONFORMED COPY

LOAN NUMBER 7680-DO

Loan Agreement

(Water and Sanitation in Tourist Areas Project)

between

DOMINICAN REPUBLIC

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 18, 2009

LOAN AGREEMENT

Agreement dated September 18, 2009, between DOMINICAN REPUBLIC (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of twenty seven million five hundred thousand Dollars (\$27,500,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(d) of the General Conditions.
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.

- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project and the Program. To this end, the Borrower shall carry out the Project through SEEPYD, in technical partnership with the Participating Utilities with respect to Part 1(b) of the Project and with CORAAPPLATA with respect to Part 2 of the Project, all in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — TERMINATION

- 4.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on October 4, 2010.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Borrower's Representative is its *Secretario de Estado de Hacienda*.

5.02. The Borrower's Address is:

Secretaria de Estado de Hacienda
Avenida México No. 45, Gazcue
Santo Domingo, Apartado Postal 1478
República Dominicana

Tel:	Facsimile:
(809) 687-5131	(809) 688-8838

5.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

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

DOMINICAN REPUBLIC

By /s/ Roberto Saladín Selín

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Yvonne M. Tsikata

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are: (i) strengthening and consolidating the policy framework of the Borrower's water and sanitation sector; (ii) improving and expanding access to sanitation and wastewater treatment and disposal services in the *Puerto Plata* region; (iii) improving the financial and operational performance of CORAAPPLATA; and (iv) enhancing operational and commercial performance of other regional utilities and preparing them to participate in the second phase of the Program.

The Project constitutes the first phase of the Program, and consists of the following parts:

Part 1: Technical Assistance for Sector Development

- (a) Design of a water and sanitation sector strategy, including the identification of key reforms, the preparation of an action plan for the implementation of said reforms, as well as the development of a Water Sector Council to facilitate inter-agency dialogue and coordination on the strategy.
- (b) Development of an institutional modernization and strengthening program to support the improvement of the management capacity of Participating Utilities, including: (i) preparation of medium-term business plans; (ii) modernization of consumer cadastre; (iii) carrying out of leakage reduction campaigns; and (iv) preparation of feasibility studies and environmental impact assessments for proposed works under a possible second phase of the Program financed by the Bank.
- (c) Development of: (i) criteria for the design of watershed management plans aimed to improve regional environmental management capacity and to protect and reclaim coastal watersheds; and (ii) a strategic environmental assessment of the Borrower's northern coast, including the design of strategies for environmental management, compatible with the long term regional economic development and preservation goals.
- (d) Carrying out of a national environmental education and public participation campaign aimed at increasing the involvement of a broad cross-section of consumers in the sector reform process, as well as raising the environmental and sector awareness of critical stakeholders and beneficiaries.

Part 2: Rehabilitation and Expansion of Sanitation Services in Puerto Plata Region

- (a) Rehabilitation and expansion of priority sewerage networks and pumping stations in the *Puerto Plata* region.
- (b) Rehabilitation of the *San Felipe de Puerto Plata* wastewater treatment plant, as well as the carrying out of feasibility studies, designs and construction of a

submarine outfall to discharge treated wastewaters from *San Felipe de Puerto Plata* and *Cabarete*.

- (c) Strengthening CORAAPPLATA's operational and commercial performance, through: (i) the development of a comprehensive strategic business plan; (ii) the provision of technical assistance for the development of efficiency improvement programs to bring the utility to reasonable levels of management, operational efficiency and financial viability; (iii) the carrying out of a baseline and after-Project analysis; and (iv) the preparation of detailed project designs and feasibility studies for proposed investments under a possible future operation financed by the Bank.

Part 3: Program Administration

- (a) Provision of support for Project coordination and strengthening of SEEPYD and CORAAPPLATA, through the provision of technical assistance (including audits), training, and provision of goods and equipment required for Project administration and monitoring.
- (b) Ensuring the achievement of Project objectives, through monitoring and evaluation activities that provide inputs to continuously guide Project management decisions.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

1. The Borrower shall enter into agreements (“Performance and Financial Support Agreements”), under terms and conditions approved by the Bank and included in the Operational Manual, with:
 - (a) CORAAPPLATA, to facilitate the carrying out of Part 2 of the Project and to set forth the technical, financial, fiduciary and administrative aspects of its participation in the implementation of Part 2 of the Project. Said agreement shall include provisions to: (i) ensure that the provision of water and sanitation services is provided within a context of economic and financial sustainability, and in accordance with cost-recovery mechanism acceptable to the Bank; (ii) have the goods, works and services required for the implementation of Part 2 of the Project be procured in compliance with the provisions of Section III of Schedule 2 to this Agreement; (iii) create an evaluation committee for the evaluation of bids associated with the procurement of goods, works and services under Part 2 of the Project; and (iv) outline specific areas for financing and establishing operational and commercial targets for the period covering Project implementation; and
 - (b) each Participating Utility, to facilitate the carrying out of Part 1(b) of the Project as well as to set forth the technical, financial, and administrative aspects of its participation in the implementation of future investments under a possible second phase of the Program, including the obligation of each of the Participating Utilities to: (i) ensure that the provision of water and sanitation services is provided within a context of economic and financial sustainability, and in accordance with cost-recovery mechanism acceptable to the Bank; and (ii) outline specific areas for financing and establishing operational and commercial targets for the period covering Project implementation. Said agreements shall be entered into in a manner satisfactory to the Bank not later than May 31, 2011.
2. The Borrower shall exercise its rights under the Performance and Financial Support Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any of the Performance and Financial Support Agreements or any provisions thereof.
3. The Borrower shall, consistently with the Environmental and Social Framework, ensure that no excavations or any type of works under Parts 2(a) and (b) of the Project shall be carried out unless an environmental screening and/or an environmental assessment (as the case may be) of the pertinent investment has been carried out in a manner satisfactory to the Bank.
4. The Borrower shall:

- (a) maintain and strengthen, until completion of the Project, a unit within SEEPYD (the PCU), responsible for the management, coordination, supervision, monitoring and evaluation of the Project; and
 - (b) cause such unit to have a structure, responsibilities, and key staff with functions, experience, responsibilities and qualifications acceptable to the Bank as described in the Operational Manual, including a manager and procurement and financial management specialists.
- 5. The Borrower shall carry out the Project in accordance with the provisions of: (a) the Environmental and Social Management Framework; (b) the Resettlement Policy Framework; and (c) a manual (the “Operational Manual”), satisfactory to the Bank, said manual to include, *inter alia*: (i) the procedures for the carrying out, monitoring and evaluation of the Project; (ii) the organizational structure of the Project (including the role and responsibilities of SEEPYD, CORAAPPLATA and Participating Utilities); (iii) the Project procurement and financial management requirements and procedures; (iv) environmental guidelines for construction, including procedures to follow in case of unexpected findings of objects with possible cultural or archeological value; (v) the eligibility criteria for the selection of Participating Utilities; (vi) the standard environmental provisions to be included in the bidding documents for investments to be carried out under the Project (which shall include provisions: (A) to minimize natural habitat conversion or degradation and to permit the maximum growth of natural vegetation within the pertinent right of way; and (B) whereby the contractor must comply with: (1) the pertinent provisions of the corresponding environmental management plan; and (2) the actions to be followed in connection with the finding of cultural property); (vii) the Project’s chart of accounts and internal controls; (viii) the format of: (A) the unaudited interim financial reports referred to in Section II. B.2 of Schedule 2 to this Agreement; and (B) the Financial Statements; (ix) the terms of reference for carrying out the Project audits under Section II.B.3 of Schedule 2 to this Agreement; and (x) the indicators to be used for Project monitoring and evaluation. In case of any inconsistency between any provision of the Operational Manual and this Agreement, the provision of this Agreement will prevail.
- 6. The Borrower, not later than 90 days after the Effective Date, shall establish a Water Sector Council to facilitate the coordination among government institutions, key donors, bilateral institutions and other key stakeholders, to oversee the process of planning, implementation, monitoring and evaluation of activities under Part 1 of the Project and provide recommendations based on the review of the progress reports prepared for the Project. Said council shall be composed by representatives of SEEPYD, INAPA, regional utilities and representatives of the Borrower’s Secretariats of Tourism, Public Works and Communications, Public Health and Social Assistance.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

- 1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in the Operational Manual. Each Project Report

shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one 45 days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than four months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works.

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

Procurement Method
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants’ Services

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

Procurement Method
(a) Selection Based on Consultant’s Qualifications
(b) Selection under a Fixed Budget
(c) Least-Cost Selection
(d) Quality-based Selection
(e) Single Source Selection
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed
(1) Goods	300,000	100% until withdrawals have reached an aggregate amount of \$150,000; and 80% thereafter
(2) Works	20,731,250	100% until withdrawals have reached an aggregate amount of \$2,000,000 and 85% thereafter
(3) Consultant's Services	6,000,000	100%
(4) Training	400,000	100%
(5) Premia for Interest Rate Caps and Interest Rate Collars	-0-	Amount due under Section 2.07(c) of this Agreement.
(6) Front-end Fee	68,750	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	27,500,000	

For the purposes of this Schedule, the term "Training" means reasonable expenditures incurred by the Borrower, through SEEPYD, for the carrying out of training activities under the Project, including reasonable costs of travel and per diem of trainers and trainees, rental of training facilities and equipment, refreshments, publishing services and printing training materials.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is September 30, 2013.

SCHEDULE 3

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

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 15 and November 15 Beginning May 15, 2015, through May 15, 2035	2.38%
On November 15, 2035	2.42%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
- 5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “CORAAPPLATA” means *Corporación de Acueductos y Alcantarillados de Puerto Plata*, the Puerto Plata Water and Sewerage Company, created through Law 142-97 of March 12, 1997.
5. “Environmental and Social Management Framework” means the Borrower’s assessment, dated October 30, 2007, of the Project environmental and social impacts, which identifies the existing environmental and social conditions and the potential direct and indirect environmental and social impacts from the carrying out of the Project, and recommends mitigation measures for negative impacts identified, as well as measures for enhancing identified positive impacts.
6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
7. “INAPA” means *Instituto Nacional de Agua Potable y Alcantarillado*, the Borrower’s National Institute of Water and Sewerage.
8. “Operational Manual” means the manual dated February 3, 2009 and referred to in paragraph 5(c) of Section I of Schedule 2 to this Agreement.
9. “Participating Utilities” means water and sanitation utilities which are either publicly owned and/or controlled or privately owned, which have been granted and/or assigned the responsibility to provide water and sanitation services within the Borrower’s territory, and which meet the criteria set forth in the Operational Manual for Project participation.
10. “Performance and Financial Support Agreement” means any of the agreements referred to in paragraph 1 of Section I of Schedule 2 to this Agreement.
11. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, and revised in October 2006.

12. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 4, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
13. “Program” means the Borrower’s program (consisting of 2 phases) set forth or referred to in the letter dated February 2, 2009 from the Borrower to the Bank.
14. “Resettlement Policy Framework” means the Borrower’s document dated March 12, 2007, specifying the population resettlement policies, planning principles, institutional arrangements, procurement arrangements and design criteria that shall apply to the preparation and carrying out of the action plans for the resettlement of population under the Project.
15. “SEEPYD” means *Secretaría de Estado de Economía, Planificación y Desarrollo*, the Borrower’s Secretariat of Economy, Planning and Development.