

CONFORMED COPY

LOAN NUMBER 7289-AR

Loan Agreement

(Urban Flood Prevention and Drainage Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

CITY OF BUENOS AIRES

Dated May 18, 2006

LOAN NUMBER 7289-AR

LOAN AGREEMENT

AGREEMENT, dated May 18, 2006, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CITY OF BUENOS AIRES (the Borrower).

WHEREAS (A) the Bank has received a letter from the Borrower, dated March 11, 2005, describing a program designed to reduce urban flood vulnerability in the Borrower's territorial jurisdiction and declaring the Borrower's commitment to the execution of such program;

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

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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) “City Department” means *Defensa Civil* (Civil Defense), *Dirección General de Hidráulica* (Directorate General of Hydraulics), *Dirección General de Higiene Urbana* (Directorate General of Urban Hygiene), *Dirección General de Espacios Verdes* (Directorate General of Green Spaces), *Dirección General de Transporte y Tránsito* (Directorate General of Transport and Transit) and *Ministerio de Medio Ambiente* (the Ministry of Environment), all of which form part of the Borrower’s public administration;

(b) “Concession Contract” means the contract entered into between the Borrower and the firms Francisco E. Hijos, S.A., Parenti Mai, S.A. and Riva, S.A (also referred to herein as the Concessionaire) dated July 26, 1988 for the use and exploitation of the facility named “*Solarium Ingeniero Agrónomo Benito Carrasco*”, the bidding documents (*Pliego de Bases y Condiciones de la Licitación Pública*) approved by the Borrower’s resolution (*Ordenanza*) No. 41742 and the Concessionaire’s bid, as said text has been amended to March 7, 2005;

(c) “DGRBM-SUPCE” means *Dirección General de Relaciones con el Banco Mundial y Sub Unidad de Coordinación para la Emergencia*, the Borrower’s executing unit and sub-coordination unit for flood emergencies, established within MoT pursuant to the Borrower’s Decrees Nos. 403/2006 and 1960/1999 of April 25, 2006 and September 23, 1999, respectively;

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

(e) “Environmental Management Plan” means *Plan de Gestión Ambiental*, the Borrower’s plan, acceptable to the Bank, dated February 14, 2005 which describes the Borrower’s actions to be undertaken or caused to be undertaken by the same in order to mitigate any adverse environmental impact resulting from the carrying out of the works under the Project (which shall include, *inter alia*, the Panel of Experts’ recommendations in respect to the environmental aspects of the works to be carried out under Part B.1 (a) of the Project, as approved by the Bank), as said plan may be amended from time to time with the agreement of the Bank;

(f) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(g) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank setting forth the Environmental Management Plan and fiscal parameters referred to in Section 4.03 (a) of this Agreement;

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

(i) “MoT” means *Ministerio de Hacienda*, the Borrower’s Ministry of the Treasury;

(j) “Non-Consultant Services” means expenditures incurred related to the cost of public advertisement in the media and on public sites as part of the activities to be carried out under Part A.6 of the Project;

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

(l) “Panel of Experts” means a group of independent specialist hired by the Bank to assess and validate the technical design of the two drainage/collection tunnels referred to in Part B.1 (a) of the Project;

(m) “Procurement Plan” means the Borrower’s procurement plan, dated March 3, 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 18 month periods (or longer) of Project implementation;

(n) “Resettlement” means the impact of an involuntary taking of land under the Project, which taking causes affected persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently; and

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

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 ninety eight million Euros (€98,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan and in respect of 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 a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2010 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not 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 March 15 and September 15 in each year.

Section 2.08. (a) Subject to the provisions of paragraph (b) of this Section, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each March 15 and September 15, the first such installment to be payable on the 11th (eleventh) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount and the last such installment to be payable on the 18th (eighteenth) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount. Each installment except for the last one shall be equal to one-eighth (1/8) of said Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of said Disbursed Amount.

(b) Notwithstanding the provisions of paragraph (a) of this Section, if any one or more installments of principal of any Disbursed Amount would, pursuant to the provisions of such paragraph (a), be payable after March 15, 2020, the Borrower shall also pay on such date the aggregate amount of all such installments.

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

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

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

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

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

(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 carry out: (a) Part A of the Project, through MoT, with the participation of the City Departments; and (b) Parts B and C, through MoT, all in coordination with the DGRBM-SUPCE, with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, public utility, social, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

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

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months 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) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project and/or cause to be carried out the same in accordance with: (i) the provisions of a manual (the Operational Manual), acceptable to the Bank, said manual to include, *inter alia*: (A) the institutional and administrative structure of DGRBM-SUPCE and its functions and responsibilities; (B) the terms of reference for the professional and administrative staff of DGRBM-SUPCE; (C) the Panel of Experts' recommendations in respect to the technical aspects of the works to be carried out under Part B.1 (a) of the Project, as approved by the Bank; (D) the Project's chart of accounts, internal controls, and budgeting, accounting and financial reporting systems; (E) the FMR formats; (F) the terms of reference for carrying out the Project audits under Section 4.01 (b) (i) of this Agreement; (G) the Project disbursement and procurement procedures; (H) the Project's standard bidding documents (which shall include, in respect of the works to be carried out under Parts B.1 (a) and B.2 of the Project, a provision whereby the contractor must comply with the pertinent provisions of the Environmental Management Plan (set forth in the Implementation Letter) in carrying out said works); (I) the terms of reference for the progress reports referred to in Section 3.07 of this Agreement; (J) the terms of reference for the group of independent advisors mentioned in Part B.1 (d) of the Project; and (K) the Project indicators; and (ii) the terms of the Environmental Management Plan set forth in the Implementation Letter.

(b) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.05. Without limitation to the provisions of Sections 3.01 and 3.04 (a) of this Agreement, and for purposes of carrying out Part B.1 (a) of the Project, the Borrower shall ensure that the recommendations of the Panel of Experts described in the Operational Manual and in the Environmental Management Plan are properly followed

and implemented on the terms specified in said documents, and for said purpose the Borrower shall take and/or cause to be taken (as the case may be) all action necessary or appropriate to comply with its obligation mentioned herein.

Section 3.06. (a) The Borrower shall: (i) operate and maintain, at all times during Project implementation, the DGRBM-SUPCE with an institutional and administrative structure, functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of the DGRBM-SUPCE to assist the Borrower in the implementation, coordination, monitoring and supervision of the Project; and (ii) (A) not later than January 15, 2006 provide to the DGRBM-SUPCE adequate office space and technical equipment to carry out its functions and responsibilities in a manner acceptable to the Bank; and (B) thereafter ensure, at all times during Project implementation, that said office space and technical equipment is available to the DGRBM-SUPCE to carry out its functions and responsibilities mentioned herein.

(b) The Borrower shall ensure that the DGRBM-SUPCE is, at all times during Project implementation, headed by a general director (*Director General*) and assisted by two general coordinators and other professional staff (with expertise in engineering, public utility, procurement and financial management) and administrative staff, all in numbers and with qualifications and experience and terms of reference acceptable to the Bank.

Section 3.07. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and to furnish to the Bank, not later than sixty calendar 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 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 semester; and

(c) review with the Bank not later than April 30 of each year of Project implementation (starting in the year 2007), the pertinent reports referred to in paragraph (b) of this Section and the report referred to in Section 4.03 (b) of this Agreement, and, thereafter, take and/or cause to be taken, as the case may be, all measures required to

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

Section 3.08. For purposes of monitoring progress in Project implementation (including progress in the implementation of the Procurement Plan), the Borrower shall not later than January 15, 2006 establish, and thereafter operate and maintain at all times during Project implementation, an information system acceptable to the Bank.

Section 3.09. The Borrower shall: (a) cause the group of independent advisors mentioned in Part B.1 (d) of the Project to meet at least once every calendar semester during the carrying out of the works under Part B.1 (a) of the Project (and thereafter, if needed in consultation with the Bank), starting in the calendar semester in which the Effective Date falls, so as to carry out its responsibilities mentioned in Part B.1 (d) of the Project (which responsibilities shall include, *inter alia*, if needed, the provision of assistance to the Borrower in the preparation of an action plan (acceptable to the Bank) to address any procurement/construction problems which may arise during the carrying out of the works under Part B.1 (a) of the Project); and (b) if applicable, implement and/or cause to be implemented the plan mentioned in (a) herein in accordance with its terms.

Section 3.10. The Borrower shall ensure that any works under the Project does not involve any Resettlement.

Section 3.11. In the case that during the construction of the works to be carried out under Part B.1 (a) of the Project an unforeseen event occurs which will affect the persons living and/or private property in the area in which said unforeseen event occurred, the Borrower shall: (a) immediately upon the occurrence of each said event, and prior to the continuation of said works, prepare and present to the Bank a plan acceptable to the Bank (which plan shall contain, *inter alia*, the actions to be carried out and/or cause to be carried out by the Borrower) to address and/or mitigate (as the case may be) any social, technical and/or environmental impact resulting from the occurrence of each such event; and (b) thereafter implement each said plan in accordance with its terms.

Section 3.12. In connection with the carrying out of the Project, the Borrower shall comply with the provisions stipulated in the Concession Contract.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards and terms of reference acceptable to the Bank, by 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 auditor, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditor, as the Bank may from time to time reasonably request.

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

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and

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

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.07 of this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

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

(b) The first FMR shall be furnished to the Bank not later than sixty calendar 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 sixty calendar days after each subsequent calendar semester, and shall cover such calendar semester.

Section 4.03. (a) The Borrower shall comply with the fiscal parameters acceptable to the Bank which are set forth in the Implementation Letter.

(b) The Borrower shall: (i) not later than sixty calendar days after the end of each calendar semester during Project implementation (starting with the report due in August 2006), prepare and furnish to the Bank a report, acceptable to the Bank, concerning the Borrower's compliance with the fiscal parameters mentioned in (a) herein (which report shall also include, *inter alia*, the savings-investment balance account on an accrual basis, and the calculation methodology (acceptable to the Bank) used by the Borrower in complying with said parameters); and (ii) not later than sixty calendar days after the presentation of each of said reports, review with the Bank the pertinent report.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall:

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

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

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

ARTICLE VI

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) the Operational Manual has been approved by the Borrower;

(b) the financial management system referred to in Section 4.01 (a) of this Agreement has been established in a manner acceptable to the Bank; and

(c) the group of independent advisors mentioned in Part B.1 (d) of the Project has been selected following the appropriate method of procurement referred to in Schedule 3 to this Agreement.

Section 6.02. The date August 16, 2006 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 MoT 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 Hacienda
Calle Bolívar No. 1
Ciudad de Buenos Aires
Argentina
Facsimile: 4343-9816

For the Bank:

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

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

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By/s/ Axel van Trotsenburg
Authorized Representative

CITY OF BUENOS AIRES

By/s/ Jorge Telerman
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 Euros)</u>	<u>% of Expenditures to be financed</u>
(1) Works	88,930,000	68%
(2) Goods	1,460,000	68%
(3) Consultants' services and Project audits	6,380,000	95%
(4) Non-Consultant Services	1,080,000	95%
(5) Operating Costs	150,000	50%
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09(c) of this Agreement
	<hr/>	
	98,000,000	
	<hr/> <hr/>	
TOTAL		

2. For the purposes of this Schedule, the term "Operating Costs" means reasonable recurrent expenditures based on 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 DGRBM-SUPCE staff, Project administration costs (including office rent), operation and maintenance of office equipment (including the insurance cost for said office equipment), and non-durable goods.

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

(a) any Category set forth in the table in paragraph 1 of this Schedule unless and until the Borrower shall have paid to the Bank in full the front-end fee referred to in Section 2.04 of this Agreement; and

(b) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$380,000, may be made in respect of Categories (3) and (5) 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 17, 2004, if the condition referred to in paragraph 3 (a) above has been met.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$300,000 equivalent per contract; (b) Non-Consultant Services costing less than \$300,000 equivalent per contract with the exception of those contracts for Non-Consultant Services to be procured under Part B.3 of Section II of Schedule 3 to this Agreement; (c) works costing less than \$5,000,000 equivalent per contract; (d) for services of individual consultants costing less than \$200,000 equivalent per contract with the exception of those contracts for services of individual consultants to be selected on a sole source basis; (e) for services of consulting firms under contracts costing less than \$200,000 equivalent per contract with the exception of those contracts for services of consulting firms to be selected on a sole source basis; and (f) Operating Costs under Category (5) set forth in the table in paragraph 1 of this Schedule, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce the Borrower's vulnerability to flooding through the improvement of the level of protection of the Borrower's rain drainage system and the implementation of a risk management program.

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: Non-Structural Measures

1. Design and implementation of a risk management program, which program includes, *inter alia*: (a) the design of hazard maps that will identify the areas at risk based on a number of factors such as typology, frequency of flooding, land use and magnitude of natural events; (b) the design of vulnerability maps that will identify the private and public infrastructure at risk, and the appropriate uses of areas at risk; (c) the design of land use plans or maps (as the case may be) that will identify the areas at risk and appropriate uses of said areas for purposes of developing risk management regulations; and (d) the identification and prioritization of risk mitigation measures, and the preparation of an action plan to implement said measures, when needed.
2. Installation and operation of a hydro-meteorological warning system.
3. Based on the information generated as a result of the carrying out of the activities mentioned in Part A.1 above, preparation of norms and/or bills of laws (as the case may be, all acceptable to the Bank) so as to update the Borrower's existing urban legal and regulatory framework.
4. Identification of alternatives for the transfer, treatment and final disposal of solid waste produced in the Borrower's territorial jurisdiction to improve solid waste management and waste recycling.
5. (a) Development of the initial phase of a green spaces master plan, which phase includes, *inter alia*, the carrying out of a diagnostic of green spaces located within the Borrower's territorial jurisdiction, the carrying out of topographic surveys of soil and trees, the design of guidelines to develop the final phase of said green spaces master plan, and the acquisition and utilization of the equipment required therefor; and (b) carrying

out of an update of the Borrower's inventory of public trees so as to develop a public trees replenishment master plan.

6. Design and implementation of a hydrological environmental, communications and education program, which program would consist of, *inter alia*, informing the Project stakeholders and population in general of the contents of the Project (including the design, printing and distribution of materials required therefor).

7. Design and implementation of a program to strengthen the institutional, operational and risk management capacity of the City Departments, if needed.

8. Carrying out of periodic water quality and quantity evaluations in a manner acceptable to the Bank.

Part B: Development of Key Defense Facilities

1. (a) Construction of two drainage/collection tunnels of approximately 9900 and 4700 meters long, respectively (each with an internal diameter of 6.90 meters) in the Maldonado basin, which will run parallel to the Maldonado underground channel; (b) carrying out of technical studies in respect of complementary work for the construction of the tunnels mentioned in (a) herein; (c) carrying out of the construction supervision of the tunnels mentioned in (a) herein; and (d) selection and hiring of a group of independent advisors under terms of reference and with qualifications and experience acceptable to the Bank to address any procurement and/or construction problems which may arise during the carrying out of the works referred to in Part B.1 (a) of the Project.

2. Improvement of the existing water drainage system in the Maldonado basin, through the expansion of the secondary water drainage network.

3. Carrying out of feasibility studies in all water basins within the Borrower's territorial jurisdiction (other than in the Maldonado basin) for purposes of designing, immediately after the completion of said studies, water drainage investments which would improve the water drainage system in said basins.

Part C: Technical Assistance and Auditing

1. Strengthening the capacity of the DGRBM-SUPCE to perform its functions and responsibilities referred to in Section 3.06 (a) of this Agreement, including the acquisition and utilization of the goods required therefor.

2. Provision of technical assistance to the Borrower to comply with its audit obligations under Section 4.01 (b) (i) of this Agreement.

* * *

The Project is expected to be completed by June 30, 2010.

SCHEDULE 3

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), the pertinent provisions of the Operational Manual, 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 Parts A and B of this Section the following additional provisions shall govern the procurement of goods, works, Non-Consultant Services and consultants’ services under the Project (as the case may be):

(a) each contract for goods, works, Non-Consultant Services and consultants’ services to be procured under the procurement methodologies referred to in Parts A and B of Section II and Parts A and B of Section III, of this Schedule shall include a provision providing for international arbitration as the appropriate settlement of disputes mechanism if the party to whom the contract is proposed to be awarded is foreign;

(b) procurement of goods, Non Consultant Services and works shall be carried out using standard bidding documents acceptable to the Bank;

(c) 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;

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

(e) 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);

(f) bidders or consultants shall not, as a condition for submitting bids or proposals: (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;

(g) request for proposals shall not require the presentation of a proposal security nor of a performance security;

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

(i) contract for goods, Non-Consultant Services and works to be procured under Part B.1 of Section II of this Schedule shall be awarded on the basis of the procurement methodology referred to in Part A of Section II of this Schedule with the following exceptions to said procurement methodology:

- (A) advertisement notice of bidding opportunities may be limited to publication of the same in the national newspapers or the Borrower's official gazette or in a web site acceptable to the Bank;
- (B) the bid price and the payment requirements may be expressed in the currency of the Guarantor;
- (C) the time for preparation and submission of bids may be reduce to thirty calendar days; and
- (D) bids for goods may be invited on the basis of placed of delivered duty paid (also known as DDP).

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 Guarantor.

B. Other Procurement Procedures

1. National Competitive Bidding.

(a) Goods and Non-Consultant Services estimated to cost less than \$500,000 equivalent per contract; and (b) works estimated to cost less than \$5,000,000 equivalent per contract, may be procured under contracts awarded on the basis of modified National Competitive Bidding procedures acceptable to the Bank (which procedures are described in Part C of Section I of this Schedule, as applicable).

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

3. Direct Contracting. Non-Consultant Services which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$300,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants' Qualifications. Consultants' services under Part A.6 of the Project estimated to cost less than \$100,000 equivalent per contract may be

procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

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

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

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 \$300,000 or more; (b) each contract for works estimated to cost the equivalent of \$5,000,000 or more; (c) the first contract for public advertisement in the media under Non-Consultant Services procured under either National Competitive Bidding or Shopping regardless of its cost; (d) each contract for Non-Consultant Services procured on the basis of Direct Contracting; and (e) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more or selected on a sole source basis. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$200,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount of \$1,400,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
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.