

**CONFORMED COPY**

**LOAN NUMBER 7836-DO**

# **Loan Agreement**

**(Municipal Development Project)**

**between**

**DOMINICAN REPUBLIC**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated May 10, 2010**

**LOAN AGREEMENT**

Agreement dated May 10, 2010 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 million Dollars (\$20,000,000), 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 January 15 and July 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 withdrawn and outstanding 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.
- 2.08. Without limitation upon the provisions of paragraph (a) of Section 2.07 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal three million Dollars (\$3,000,000) shall be converted from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of the General Conditions and of the Conversion Guidelines.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through SEEPYD-DGDOT with the assistance of the Participating Municipalities with respect to Parts 1 and 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 — EFFECTIVENESS; TERMINATION**

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than eighteen (18) months after the Bank’s approval of the Loan which expires on July 21, 2011.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

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

5.02. The Borrower's Address is:

Secretaría 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

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yvonne Tsikata

Authorized Representative

## SCHEDULE 1

### Project Description

The objectives of the Project are to improve the technical and financial capacity of the Participating Municipalities to program, finance and deliver Minimum Municipality Services.

The Project consists of the following parts:

#### Part 1: Institutional Strengthening

- (a) Provision of support for the institutional strengthening of municipal governments, including, *inter alia*:
  - (i) the design and implementation of a new municipal organizational structure and establishment of organizational units and planning systems;
  - (ii) the creation and functioning of municipal development councils, including specific actions to enhance the transparency of municipal administrations and the participation of civil society;
  - (iii) the strengthening of the municipal administration, including: (A) the budget and financial administration system in each Participating Municipality; (B) improving procurement management policies; and (C) strengthening the human resource management function; and
  - (iv) the strengthening of the capacity for programming, implementing and managing basic municipal services, including the preparation and implementation of minimum annual maintenance programs.
- (b) Strengthening the national level institutional support system for municipal governments, including, *inter alia*, providing assistance to strengthen the capacity of SSEPLAN-DGODT, DGIP and DGDES to implement the new national, regional, provincial and municipal planning systems.
- (c) Provision of support for the formulation of Municipal Development Plans (“MDPs”), including, *inter alia*, institutional action plans and local investment programs, as well as assistance in the preparation of Municipal Subproject Agreements.

#### Part 2: Municipal Investments

- (a) Provision of support for the carrying out of municipal investments required to improve coverage, quality and management of Minimum Municipal Services and infrastructure, through the provision of Matching Grants to Participating Municipalities for the implementation of Municipal Subprojects.

- (b) Provision of technical assistance and training to Participating Municipalities to assist in the management of Municipal Subproject implementation.

Part 3: Project Administration, Monitoring and Evaluation

- (a) Provision of support for Project coordination and strengthening of DGDOT through the provision of technical assistance (including audits), training, goods and equipment, as well as incremental operating costs required for Project administration and monitoring.
- (b) Carrying out of monitoring and evaluation activities that provide inputs to continuously guide Project management decisions, including the preparation of a communication strategy to support Project implementation, all for the purpose of ensuring the achievement of Project objectives.
- (c) Provision of support for the preparation of studies relevant to Project objectives, including social and institutional assessments necessary for the inclusion of new municipalities in the Project.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. No later than 45 days after the Effective Date, the Borrower shall establish, and thereafter maintain during the implementation of the Project, a Sectoral Technical Assistance Coordination Group with membership acceptable to the Bank and defined in the Operational Manual, responsible for: (a) reviewing Municipal Development Plans and investment programs proposed under Municipal Subprojects; and (b) reviewing technical issues and providing guidance and assistance to the municipalities in planning and implementing municipal investments.
2. No later than 45 days after the Effective Date, the Borrower shall establish, and thereafter maintain during the implementation of the Project, a Steering Committee chaired by SSEPLAN and composed by representatives from key organizations, as defined in the Operational Manual, responsible for providing general oversight and policy guidance under the Project.
3. The Borrower shall maintain within DGDOT during the implementation of the Project a unit (the PCU), consisting of staff having experience and qualifications satisfactory at all times to the Bank, and responsible for overall coordination and implementation of the Project.
4. For the purposes of carrying out Parts 1 and 2 of the Project, the Borrower, through DGDOT, shall:
  - (a) enter into an agreement (the Municipal Agreement) with each Participating Municipality, setting forth: (i) the technical, financial, administrative and fiduciary aspects of the Project and municipal participation in the implementation of, and use of funds for, Parts 1 and 2 of the Project; and (ii) the Participating Municipality's commitment to increase capacity in the implementation of municipal core functions.
  - (b) review annually (or at any other interval acceptable to the Bank), together with the Bank, the performance of each of the Participating Municipalities with respect to financial, physical and technical performance targets (included in each of the Municipal Subproject Agreements and explained further in the Operational Manual), and provide evidence showing, to the satisfaction of the Bank that: (i) these targets were achieved; and (ii) the amounts disbursed by the Borrower to each Participating Municipality under their respective Municipal Subproject Agreement, were used for goods, works and services eligible for financing out of the proceeds of the Loan.



- (c) exercise its rights under each of the Municipal 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 Implementation Agreements, or any of their provisions.
- 5. For the purposes of carrying out Part 2 of the Project, the Borrower, through DGDOT, shall:
  - (a) after having selected a Municipal Subproject in accordance with the guidelines and procedures set forth in the Operational Manual, enter into an agreement with the Participating Municipality (“Municipal Subproject Agreement”), under terms and conditions approved by the Bank and included in the Operational Manual (including the Participating Municipality’s obligation to comply with the terms of the Anti-Corruption Guidelines, and to abide by the technical and environmental practices required for the Subprojects), for the provision of Matching Grants for the implementation of said Municipal Subproject.
  - (b) ensure that no Municipal Subproject may involve any of the activities set forth in Schedule 4 to this Agreement.
  - (c) exercise its rights under the Municipal Subproject 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 Municipal Subproject Agreements or any provisions thereof.

**B. Safeguards and Operational Manual**

- 1. The Borrower shall, and shall cause the Participating Municipalities to, carry out the Project in accordance with the provisions of the Environmental and Social Management Framework.
- 2. The Borrower shall, and shall cause the Participating Municipalities to, carry out the project in accordance with a manual (the Operational Manual), satisfactory to the Bank, which shall include the rules, methods, guidelines, standard documents and procedures for the carrying out of the relevant parts of the Project, including the following:
  - (i) the detailed description of Project implementation activities and the detailed institutional arrangements of the Project;
  - (ii) criteria and methods for the selection of the Participating Municipalities;
  - (iii) detailed social, economic, financial, technical and environmental criteria for screening and selecting Municipal Subprojects, including a negative

list of environmentally sensitive investments ineligible for financing under a Subproject;

- (iv) criteria for the approval, implementation and monitoring of the Municipal Subprojects;
- (v) guidelines for the adoption of an integrated pest management approach in all applicable activities to be developed under the Project;
- (vi) guidelines to follow in case of unexpected findings of objects with possible cultural or archeological value;
- (vii) a model form for the Municipal Subproject Agreements;
- (viii) the Project administrative, accounting, auditing, reporting, financial (including cash flow aspects in relation thereto), procurement and disbursement procedures (including customized statements of expenditures and all pertinent standard documents and model contracts in relation thereto);
- (ix) mandatory safeguards and mitigation actions for any Municipal Subprojects, which could possibly have a negative environmental impact such as, in particular, increase in deforestation, pollution of groundwater, negative impacts on endangered species, increased soil erosion, impacts on parks and protected areas, and encroachment on natural habitats;
- (x) the plan for the monitoring and supervision of the Project, including all environmental, physical, social and information technology related aspects in relation thereto; and
- (xi) the monitoring indicators for the Project.

3. In the event that any provision of the Operational Manual shall conflict with this Agreement, the terms of this Agreement shall prevail.

4. The Operational Manual may only be amended from time to time with the Bank's prior written consent.

**C. Anti-Corruption**

The Borrower shall, and shall cause Participating Municipalities, to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

## **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 monitoring indicators agreed with the Bank and set forth in the Operational Manual. Each Project Report shall cover the period of four months, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.
2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six months after the Closing Date.

### **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, through the PCU, prepare and furnish to the Bank not later than one month after the end of each six month period during Project implementation, interim unaudited financial reports for the Project covering the six month period, 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. 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 (April 30 of each Fiscal Year).

## **Section III. Procurement**

### **A. General**

1. **Goods, Works and Non-Consultant Services.** All works, goods and Non-Consultant Services required for the Project and to be financed out of the proceeds of the Loan (including those to be financed under the Municipal Subprojects) 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, Works and Non-Consultant Services**

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

<b><u>Procurement Method</u></b>
(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.

<b><u>Procurement Method</u></b>
(a) Quality-based Selection
(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Selection Based on the Consultants Qualifications
(e) Individual Consultants
(f) Single Source Selection

**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.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be financed (inclusive of Taxes)</b>
(1) Goods, consultants’ services, Non-consultant Services and Training under Part 1 of the Project.	5,450,000	100%
(2) Matching Grants under Part 2 of the Project.	13,500,000	90%
(3) Goods, Non-consultant Services, consultants’ services, Incremental Operating Costs and Training under Part 3 of the Project.	1,000,000	90%
(4) Front-end Fee	50,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(5) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount payable pursuant to Section 2.07 (c) of this Agreement
<b>TOTAL AMOUNT</b>	<b>20,000,000</b>	

For the purposes of this Schedule:

- (a) “Training” means reasonable expenditures incurred by the Borrower 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) “Incremental Operating Costs” means incremental expenditures incurred by the Borrower for recurrent costs associated with the implementation of the Project, including: (i) office supplies, rental of office facilities and utilities associated with the PCU; (ii) transportation costs, travel and *per diem* cost for technical staff which will carry out supervisory activities under the Project, as well as salaries of locally contracted employees; and (iii) vehicle operation, maintenance, and insurance costs.
- (c) “Non-consultant Services” means services to be contracted for, *inter alia*, social communication campaigns, including surveys and outreach programs and information technology (IT) connection.

**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, except that withdrawals under categories (1) through (3) set forth in the table in Part A, up to an aggregate amount not to exceed \$4,000,000 equivalent may be made for payments made prior to this date but on or after December 10, 2009, but not earlier than 12 months from the date of this Agreement, for Eligible Expenditures under the Project.
2. The Closing Date is February 15, 2016.

### 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 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.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
January 15, 2028	100%

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 subparagraph 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.



## **SCHEDULE 4**

### **Subprojects Negative List**

1. Land acquisition or any activities which, when being carried out, would affect or involve the use of land, unless otherwise approved by the Bank in writing.
2. Activities that may involve taking of land resulting in the physical relocation or loss of shelter, and loss of income sources or means of livelihoods, as a consequence of restricted access to land or other resources, whether or not the affected person(s) must move to another location.
3. Activities that involve new road construction or major upgrading or realignment of roads (major means: changing the road category, such as from seasonal to all-weather or secondary to primary; or adding new lanes or otherwise widening a road).
4. Waste management (including solid waste and leachate), handling and disposal, as well as manufacture, transport and use of pesticides and other hazardous and/or toxic materials (except small amounts of solvents, degreasing materials, paints, fuels and the like used during construction).

## APPENDIX

### Section I. 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. “DGDES” means *Dirección General de Desarrollo Económico y Social*, the Borrower’s general directorate of economic and social development.
5. “DGDOT” means *Dirección General de Ordenamiento y Desarrollo Territorial*, the Borrower’s General Directorate of Territorial Development.
6. “DGIP” means *Dirección General de Inversión Pública*, the Borrower’s general directorate of public investment.
7. “Environmental and Social Management Framework” means the Borrower’s assessment, dated May 1, 2009, 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.
8. “Fiscal Year” means the fiscal year of the Borrower starting on January 1 until December 31.
9. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008), with the modifications set forth in Section II of this Appendix.
10. “Matching Grants” means a financial transfer from the Borrower to the Participating Municipality, on a periodic basis, for the payment of goods, works and services required for the implementation of Municipal Subprojects.
11. “Minimum Municipal Services” means the catalogue of services that every municipality in the Borrower’s territory must be able to provide, according to article 20 of the Borrower’s Municipal Law 176-07 of July 2007, including: (i) cemeteries and funerary services; (ii) collection, processing and disposal of urban and rural solid waste; (iii) street cleaning; (iv) access to populated areas, repair and maintenance of streets, sidewalks, curbs and rural paths; (v) squares and public parks; (vi) public libraries; (vii) sport

- facilities; (viii) slaughterhouses; (ix) civil protection; (x) fire prevention and extinction; (xi) environmental protection; (xii) urban planning; and (xiii) basic social services.
12. “Municipal Agreement” means any of the agreements referred to in paragraph 4(a) of Section I of Schedule 2 to this Agreement.
  13. “Municipal Subproject” means a subproject identified and prioritized in the Participating Municipality’s MDP, and approved in accordance with the criteria and procedures set forth in the Operational Manual, for the financing of municipal investments required to improve coverage, quality and management of Minimum Municipal Services and infrastructure, and referred to in Part 2 of the Project.
  14. “Municipal Subproject Agreement” means any agreement to be entered into between the Borrower, through DGDOT, and a Participating Municipality, as specified in Section I.A.5 of Schedule 2 to this Agreement for the purposes of receiving funds (Matching Grants) under Part 2 of the Project, and to set forth specific commitments to increase capacity in municipal core functions and the investment program, following a model agreement to be included in the Operational Manual.
  15. “Operational Manual” means the manual dated August 5, 2009, approved by the Bank, and referred to in Section I.B.2 of Schedule 2 to this Agreement, as the same may be amended from time to time with the Bank’s prior written consent.
  16. “Participating Municipalities” means those municipalities within the Borrower’s territory, eligible to receive funds under Parts 1 and 2 of the Project, that meet the criteria set forth in the Operational Manual, namely: (i) having initially been selected as one of 30 municipalities eligible to participate in the Project; (ii) showing minimum municipal organization structure; and (iii) having initiated the process of establishing or restructuring a Municipal Development Council.
  17. “PCU” means the Project Coordinating Unit established within DGDOT and responsible for the implementation of the Project, as further described in Section I.A.3 of Schedule 2 to this Agreement.
  18. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
  19. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated December 9, 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.
  20. “SEH” means *Secretaría de Estado de Hacienda*, the Borrower’s Ministry of Finance.
  21. “SEEPLAN” means *Subsecretaría de Estado de Planificación*, the Borrower’s State Sub-Secretariat of Planning.
  22. “SEEPYD” means *Secretaría de Estado de Economía, Planificación y Desarrollo*, the Borrower’s Secretariat of Economy, Planning and Development.

23. “SEMARN” means *Secretaría de Estado de Medio Ambiente y Recursos Naturales*, the Borrower’s Secretariat of the Environment and Natural Resources.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.05 is modified to read as follows:

“Section 2.05. Eligible Expenditures

- (a) The payment for the financing of the reasonable cost of goods, works, services or Capitation Transfers required for the Project, to be financed out of the proceeds of the Loan and procured, all in accordance with the provisions of the Legal Agreements;”

2. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”

- (b) The definition of the term “Variable Rate” is modified, in relevant part, to read as follows:

“(c) upon a Currency Conversion to an Approved Currency of an amount of the Withdrawn Loan Balance that accrues interest at a variable rate during the Conversion Period, the variable rate of interest applicable to such amount shall be equal to either: (i) the sum of: (A) LIBOR, or such other base rate as may be agreed by the Borrower and the Bank, for the Approved Currency; plus (B) the spread to LIBOR or to such other base rate, if any, payable by the Bank under the Currency Hedge Transaction relating to said Currency Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the interest rate component of the Screen Rate.”