

**LOAN NUMBER 7209-PE**

# **Loan Agreement**

**Lima Transport Project  
(North-South Subsystem)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**MUNICIPALIDAD METROPOLITANA DE LIMA**

**Dated June 2, 2004**

**LOAN NUMBER 7209-PE**

**LOAN AGREEMENT**

AGREEMENT, dated June 2, 2004, between MUNICIPALIDAD METROPOLITANA DE LIMA (MML, the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Republic of Peru (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;

(B) 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 to undertake such other obligations as set forth in the Guarantee Agreement; and

(C) the Borrower intends to contract from the Inter-American Development Bank (the IDB) a loan (the IDB Loan) in an amount equivalent to \$45,000,000 to assist in financing the Project on the terms and conditions to be set forth in an agreement (the IDB Loan Agreement) to be entered into between the Borrower and IDB;

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

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

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

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

meanings therein set forth and the following additional terms have the following meanings:

(a) “Annual Operational Plan” means any of the annual plans provided by the Borrower, through PROTRANSPORTE (as hereinafter defined) to the Bank for the implementation of the Project, detailing arrangements, work plans, training plans, and procedures to be used for the purposes of implementation of the Project;

(b) “Beneficiary” means an individual who has met the eligibility criteria specified in the Project Operational Manual and, as a result, has been extended, or is to be extended, a Micro-Credit for activities under Part B.2. of the Project; and “Beneficiaries” means each such Beneficiary collectively;

(c) “*Caja Metropolitana de Lima*” means the municipal financial organization of the Borrower established and operating pursuant to Law No. 10769 dated January 20, 1947;

(d) “DMTU” means ‘*Dirección Municipal de Transporte Urbano*’, the Borrower’s municipal directorate for urban transport, established and operating pursuant to Municipal Resolution (*Edicto*) No. 021 dated April 1, 1985;

(e) “EMAPE” means ‘*Empresa Municipal Administradora de Peaje de Lima S.A.*’, the Borrower’s company for the management of tolls, established and operating under its articles of incorporation and the Borrower’s Council Agreement No.146, dated June 26, 1986;

(f) “Environmental and Social Management Plan” means the plan detailing environmental and social management and mitigation guidelines for the Project, referred to in paragraph 1 of Schedule 5 to this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Environmental and Social Management Plan;

(g) “Fiscal and Financial Action Plan” means any of the annual plans provided by the Borrower to the Bank and detailing performance compliance with fiscal and financial practices of MML;

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

(i) “FONAM” means ‘*Fondo Nacional del Ambiente*’ environmental and social private and non-for-profit foundation, established and operating pursuant to the Guarantor’s Law No. 26793 dated May 2, 1997;

(j) “General Procurement Plan” means the plan referred to in paragraph 4 of Schedule 5 to this Agreement, outlining procurement arrangements for goods, works and services to be procured under the Project;

(k) “Initial Deposit” means the amount to be deposited in the Project Account pursuant to Section 3.04 (b) of this Agreement;

(l) “Institutional Cooperation Arrangements” means any or all of the final institutional cooperation arrangements executed between the Borrower, through PROTRANSPORTE on one hand and each of FONAM, EMAPE, DMTU, PEMTNM, SENATI, the Micro-Credit Institutions and the Guarantor’s Ministry in charge of labor;

(m) “*MiBanco*” means a private financial institution created and operating under the Laws of the Guarantor;

(n) “Micro-Credit” means a micro-credit made or proposed to be made to a Beneficiary by an Micro-Credit Institution for activities under Part B.2. of the Project in accordance with paragraph 5 of Schedule 5 to this Agreement;

(o) “Micro-Credit Agreement” means an agreement between an Micro-Credit Institution and a Beneficiary setting forth the terms and conditions under which a Micro-Credit shall be made available to said Beneficiary for the purpose of financing activities under Part B.2. of the Project in accordance with paragraph 5 of Schedule 5 to this Agreement;

(p) “Micro-Credit Institution” means any of the institutions (including *Caja Metropolitana de Lima* and *MiBanco*) allowed to grant Micro-Credits to a Beneficiary under Part B.2. of the Project in accordance with paragraph 5 of Schedule 5 to this Agreement, the respective Institutional Cooperation Arrangement to be executed between the Borrower and said Micro-Credit Institution in accordance with the Micro-Credit Operational Manual;

(q) “Micro-Credit Operational Manual” means the manual referred to in paragraph 1 of Schedule 5 to this Agreement outlining policies, regulations, procurement, financial management and implementation procedures as well as monitoring guidelines for Part B.2 of the Project;

(r) “PEMTNM” means ‘*Proyecto Especial Metropolitano de Transporte No-Motorizado*’, the Borrower’s special unit for non-motorized transport, established and operating pursuant to the Borrower’s Resolution No. 98 dated January 22, 2003;

(s) “PIU” means the Project Implementation Unit within PROTRANSPORTE in charge of the day-to-day management and execution of the Project;

(t) “Policy Guidelines for road-based public transport” means the Borrower’s guidelines discussing its strategies and policies for road based public transport;

(u) “Project Account” means the account to be opened pursuant to Section 3.04 of this Agreement;

(v) “Project Operational Manual” means the manual referred to in paragraph 1 of Schedule 5 to this Agreement, outlining policies and implementation procedures including institutional strengthening and social mitigation plans as well as monitoring guidelines for the Project and other related documents, except as it relates to the micro-credit component of the Project that will be specified separately in the Micro-Credit Operation Manual. Said manual may be amended from time to time, and such term includes any schedules to the Project Operation Manual;

(w) “PROTRANSPORTE” means ‘*Proyecto de Preparación del Plan de Inversiones para el Transporte Metropolitano de Lima*’, the Borrower’s agency responsible for the preparation of investment, implementation, operation and control of the high capacity segregated busways in Lima, established and operating pursuant to Borrower’s Decree No. 035 dated April 12, 2002;

(x) “ROS” means ‘*Reglamento de Operación del Sistema*’, the regulation for the operation of the high capacity segregated busways system and its components to be adopted by the Borrower;

(y) “SENATI” means ‘*Servicio Nacional de Adiestramiento Técnico-Industrial*’, the Guarantor’s national vocational training service, established and operating pursuant to Guarantor’s Law No. 13771 dated December 19, 1961;

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

(aa) "Staffing Plan" means the staffing plan for the eight (8) key personnel within the PIU.

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to forty five million Dollars (\$45,000,000), 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 works, goods, services and micro-credits required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) 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 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009, 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. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) 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 (b) 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 May 1 and November 1 of each year.

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

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

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

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

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar, in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium

payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project, and to this end, shall carry out the Project through PROTRANSPORTE with due diligence and efficiency and in conformity with appropriate administrative, engineering, social, financial, public utility and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall, through PROTRANSPORTE, carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

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

(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. Without limitation upon its obligations under Section 3.01 of this Agreement, the Borrower shall, through PROTRANSPORTE:

(a) open and maintain in a commercial bank an account (the Project Account) in Dollars on terms and conditions satisfactory to the Bank;



(b) deposit an initial deposit into the Project Account in an amount equivalent to \$850,000 (the Initial Deposit), to finance the Borrower's contribution to the costs of the Project;

(c) thereafter, deposit into the Project Account at least in January, April, July and October of each year, until the completion of the Project, such amounts as shall be required to replenish in a timely manner the Project Account in an amount equal to the amount of the Initial Deposit; and

(d) use the Project Account funds exclusively to finance expenditures under the Project.

Section 3.05. The Borrower shall, through PROTRANSPORTE, furnish to the Bank: (a) no later than twelve months after the Effective Date, and thereafter implement, Institutional Cooperation Arrangements executed between the Borrower, through PROTRANSPORTE, on one hand and each of DMTU, PEMTNM, SENATI, the Micro-Credit Institutions and the Guarantor's Ministry in charge of labor, all in form and substance satisfactory to the Bank; (b) no later than December 31, 2004 and thereafter implement, the ROS in form and substance satisfactory to the Bank, and (c) no later than six months after the Effective Date, and thereafter implement the Policy Guidelines for road-based public transport in form and substance satisfactory to the Bank.

Section 3.06. The Borrower, through PROTRANSPORTE, shall appoint the auditors referred to in Section 4.01 (b) (i) of this Agreement in accordance with the provisions of Section II of the Schedule 4 to this Agreement no later than three months after the Effective Date.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower, through PROTRANSPORTE, 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 and financial condition of PROTRANSPORTE and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower, through PROTRANSPORTE, shall:

- (i) commencing with the fiscal year in which the Effective Date falls, to and including the fiscal year in which the last withdrawal from the Loan Account is made, have the financial statements of PROTRANSPORTE (balance sheets, statements of income and expenses and related statements) for each fiscal year, or other period agreed to by the Bank, audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year or such other period agreed to by the Bank, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year, or such other period agreed to by the Bank, as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower, through PROTRANSPORTE, 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 expenditures 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 Schedule 5 to this Agreement, the Borrower, through PROTRANSPORTE, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

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

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

## **ARTICLE V**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The Municipal Ordinance of the Borrower, referred to in Section 6.01 (f) shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Bank; affect materially and adversely the ability of the Borrower to perform any of its obligations under the Loan Agreement.

(b) The Institutional Cooperation Arrangements shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Bank, affect materially and adversely the ability of the Borrower to perform any of its obligations under the Loan Agreement.

(c) The IDB Loan Agreement shall have failed to become effective by December 31, 2004, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower

from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(d) The IDB Loan Agreement shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Bank, affect materially and adversely the ability of the Borrower to perform any of its obligations under the Loan Agreement.

(e) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of IDB Loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the IDB Loan Agreement providing therefor, or

(B) the IDB Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) The events specified in paragraphs (a), (b), (c), and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

(b) The event specified in paragraph (e) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (e) (ii) of that Section.

## ARTICLE VI

### Effective Date; Termination

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

(a) the Project Account has been opened and the Initial Deposit been deposited therein;

(b) The Borrower, through PROTRANSPORTE, has adopted a financial management system, including the capacity to produce FMRs, satisfactory to the Bank;

(c) the Borrower, through PROTRANSPORTE, has adopted the Project Operational Manual, the Environmental and Social Management Plan and the General Procurement Plan;

(d) the Borrower, through PROTRANSPORTE, has adopted for the first year of the Project, the Annual Operational Plan;

(e) the Borrower has adopted for the first year of the Project the Fiscal and Financial Action Plan;

(f) the Borrower has promulgated, in form and substance satisfactory to the Bank, a Municipal Ordinance providing for the intangibility of the transport corridor and regulating the use of its protected zone;

(g) the Borrower, through PROTRANSPORTE, has submitted to the Bank terms of reference acceptable to the Bank for the appointment of auditors referred to in Section 4.01 (b) (i) of this Agreement;

(h) the Borrower, through PROTRANSPORTE, has executed final Institutional Cooperation Arrangements, all in form and substance satisfactory to the Bank with EMAPE and FONAM;

(i) the Staffing Plan has been adopted, in form and substance satisfactory to the Bank and all necessary staffing arrangements have been made in accordance with said Staffing Plan; and

(j) a procurement specialist for EMAPE has been hired, in accordance with the provisions of Section II of Schedule 4 to this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Institutional Cooperation Arrangement with EMAPE referred to in Section 6.01 (h) of this Agreement has been duly authorized or ratified by the Borrower and EMAPE, and is legally binding upon the Borrower and EMAPE in accordance with its terms; and

(b) that the institutional cooperation arrangement with FONAM referred to in Section 6.01 (h) of this Agreement has been duly authorized or ratified by the Borrower and FONAM, and is legally binding upon the Borrower and FONAM in accordance with its terms.

Section 6.03. The date one hundred and twenty (120) days after the date of this Agreement 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 Mayor of MML 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:

Municipalidad Metropolitana de Lima  
c/o PROTRANSPORTE  
Av. Aramburú 166, 4<sup>th</sup> Floor  
Miraflores  
Lima 18

Facsimile:  
(51-1) 421-8512

For the Bank:

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

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

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

MUNICIPALIDAD METROPOLITANA DE LIMA

By /s/ Luis Castañeda Lossio

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ David de Ferranti

Regional Vice President  
Latin America and the Caribbean



**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

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

<u>Category</u>	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be financed
(1) Works		
(a) under contracts awarded to a contractor from a country that is a member of both the Bank and IDB	29,710,00	41%
(b) under contracts awarded to contractor from a country that is a member of the Bank but not of the IDB	0	82%
(2) Goods		
(a) under contracts awarded to a contractor from a country that is a member of both the Bank and IDB	3,190,000	41%
(b) under contracts awarded to contractor from a country that is a member of the Bank but not of the IDB	0	82%
(3) Consultant Services and Audits	4,360,000	82%
(4) Training	250,000	41%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(5) Works, Goods and Services financed by Micro-Credits under Part B.2. of the Project	720,000	41%
(6) Front-end Fee	450,000	Amount due under Section 2.04 of this Agreement
(7) Unallocated	6,320,000	
(8) Premium for Interest Rate Caps and Collars	0	Amount due under Section 2.09 (c) of this Agreement
	<b>TOTAL</b>	
	45,000,000	
	=====	

2. For the purposes of this Schedule:

(a) "Training" means: (i) training materials and rental of training facilities; and (ii) reasonable fees, travel, and per diem of trainers and trainees; and

(b) Reallocations between subcategories (a) and (b) under Categories (1) and (2) will be done upon request by the Borrower and will only require approval by the Bank and notification to the Borrower.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$1,000,000, may be made in respect of Categories (1) through (4) of the table in paragraph 1 of this Schedule, on account of payments made for expenditures during the twelve months immediately before that date but in any case after September 30, 2003; and

(b) Micro-Credits under Category (5) in the table in paragraph 1 above unless (i) the Borrower, through PROTRANSPORTE, has adopted the Micro-Credit Operational Manual in form and substance satisfactory to the Bank, (ii) an Institutional Cooperation Arrangement in form and substance satisfactory to the Bank has been duly executed between the Borrower, through PROTRANSPORTE, and the Micro-Credit Institution; and (iii) a report of Micro-Credit Agreements approved in accordance with paragraph 5 of Schedule 5 to this Agreement and in accordance with the Micro-Credit Operational Manual has been submitted to the Bank in form and substance satisfactory to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for (a) works costing \$500,000 equivalent or less per contract; (b) goods costing \$250,000 equivalent or less per contract; (c) consulting firms under contracts costing less than \$100,000 equivalent; (d) individual consultants under contracts costing less than \$50,000 equivalent; (e) training; and (f) Micro-Credits, 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 assist the Borrower in enhancing the economic productivity and the quality of life in the Borrower's municipal territory by improving mobility and accessibility for its population, especially in the peri-urban poor neighborhoods, through the establishment of an efficient, reliable, cleaner and safer mass transit system.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

#### Part A: Mobility and Environmental Improvements

1. Construction of segregated busways of about 29 km;
2. re-pavement of mixed-traffic lanes and pedestrian facilities adjacent to new busways and improvement of about 50 km of feeder roads and about 30 km of pedestrian and cycling facilities to two bus terminals;
3. implementation of traffic signal and other traffic engineering improvements along the busways and in the immediate vicinity of the busways;
4. construction of about 35 bus stops, two bus intermediate terminals, two bus terminals, and two bus depots and workshops;
5. construction of a control center to monitor and direct operations on the busways;
6. adoption of traffic safety and personal security measures along the busways, its feeder roads and its adjacent roads;
7. improvement of pedestrian and vehicular circulation in sensitive areas along the busways and enhancement of public space;
8. relocation of a flower market and assistance to informal street vendors affected by the busway improvements;
9. carrying out of environmental mitigation measures;

10. implementation and initial operation of an improved air quality monitoring system;
11. development and initial implementation of a road safety strategy; and
12. technical assistance for the development of more environment-friendly vehicle scrapping methods.

Part B: Social Mitigation and Community Participation

1. Carrying out of community consultations, including with urban transit users and operators, to enhance awareness and ownership of the new transit system, including road safety education;
2. mitigation of negative impacts of the Project on current bus operators; and
3. provision of technical support to operators within the affected routes to strengthen their managerial and professional capacities.

Part C: Institutional Strengthening

1. Development and implementation of a municipal public transport policy, including its regulatory and policy-setting framework, as well as its administration, operation, monitoring and control;
2. provision of technical assistance and equipment to PROTRANSPORTE and training for PROTRANSPORTE personnel;
3. provision of technical assistance and equipment to DMTU and training for DMTU personnel and police officers in the area of public transport regulations and their monitoring, control and enforcement; and
4. monitoring and evaluation of the Project.

Part D: Studies and Construction Supervision

1. Supervision of civil works carried out under Part A of the Project;
2. carrying out of economic feasibility, environmental and related studies as well as the preparation of engineering designs to expand further the busway network; and

3. carrying out of social impact assessments of the Project.

\* \* \*

The Project is expected to be completed by December 31, 2008.

### SCHEDULE 3

#### Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share</u>
May 1, 2009	6.44%
November 1, 2009	6.24%
May 1, 2010	6.02%
November 1, 2010	5.80%
May 1, 2011	5.60%
November 1, 2011	5.38%
May 1, 2012	5.16%
November 1, 2012	4.96%
May 1, 2013	4.73%
November 1, 2013	4.51%
May 1, 2014	4.31%
November 1, 2014	4.09%
May 1, 2015	3.87%
November 1, 2015	3.67%
May 1, 2016	3.44%
November 1, 2016	3.22%
May 1, 2017	3.00%
November 1, 2017	2.80%
May 1, 2018	2.58%
November 1, 2018	2.36%
May 1, 2019	2.16%
November 1, 2019	1.93%
May 1, 2020	1.71%
November 1, 2020	1.51%
May 1, 2021	1.29%
November 1, 2021	1.07%
May 1, 2022	0.87%
November 1, 2022	0.64%
May 1, 2023	0.42%
November 1, 2023	0.22%

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

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

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

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

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

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



determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

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

## **SCHEDULE 4**

### **Procurement and Consultants' Services**

#### Section I. Procurement of Goods and Works

##### Part A: General

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

##### Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods estimated to cost \$350,000 equivalent per contract or more and works estimated to cost \$5,000,000 equivalent per contract or more shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto. Such goods and works shall be procured using standard bidding documents acceptable to the Bank and the IDB.

##### Part C: Other Procurement Procedures

#### 1. National Competitive Bidding

(a) Goods estimated to cost \$50,000 equivalent per contract or more, up to an aggregate amount not to exceed \$750,000 equivalent; and (b) works estimated to cost \$250,000 equivalent per contract or more, up to an aggregate amount not to exceed \$18,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

To the extent practicable, contracts for office equipment and supplies shall be grouped in bid packages estimated to cost \$50,000 equivalent or more each.

#### 2. National Shopping

Goods estimated to cost \$50,000 equivalent per contract or less, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts

awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost \$250,000 equivalent per contract or less, up to an aggregate amount not to exceed \$2,500,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for (i) works estimated to cost more than \$500,000 equivalent; and (ii) goods estimated to cost more than \$250,000 equivalent, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for works procured under small works procedures and the first two contracts for goods procured under national shopping, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, estimated to cost less than \$350,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services estimated to cost less than \$100,000 equivalent per contract, and not exceeding the aggregate amount of \$800,000 equivalent shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Services 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 and 3.5 of the Consultant Guidelines.

### Least-Cost Selection

Services for audits estimated to cost less than \$100,000 equivalent per contract, and not exceeding the aggregate amount of \$700,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

#### 4. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

#### 5. Single Source Selection

Services estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

#### 6. Individual Consultants

(a) Services for individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines up to an aggregate amount of \$300,000 equivalent shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

(b) Individual consultants may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

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

#### 1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the General Procurement Plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; and (ii) all contracts for the employment of consulting firms selected on a sole-source basis, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

3. Post Review

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

Section III. Special Provisions

A. In addition and without limitation or restriction to any other provision set forth in this Schedule or the Guidelines, the following provisions shall govern all procurement of goods and works under Part C.1 of Section I of this Schedule:

1. No reference value shall be required for publication in the bidding documents.
2. Award of contracts shall be based exclusively on price and, whenever appropriate, shall take into account factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.
3. The Borrower shall utilize standard bidding documents satisfactory to the Bank.

B. In addition and without limitation or restriction to any other provision set forth in this Schedule or the Consultant Guidelines, the following provisions shall govern all employment of consultants referred to in Section II of this Schedule:

1. Foreign consultants shall not be required to be locally registered as a condition of participation in the selection process.
2. No reference value shall be required for publication in the proposal documents.
3. No minimum number of responsive proposals shall be required prior to awarding a contract for consulting services.
4. Foreign consultants shall not be required to legalize their proposals or any documentation related to such proposals with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participating in the selection process.

## SCHEDULE 5

### Implementation Program

#### 1. General

The Borrower, through PROTRANSPORTE, shall:

(a) carry out the Project in accordance with a Project operational manual, an annual operational plan, an environmental and social management plan, a fiscal and financial action plan, the Staffing Plan and a Micro-Credit operational manual and, except as the Bank shall otherwise agree, shall not amend or waive any provision of these manuals or of these plans without the Bank's prior written approval. In case of any conflict between the terms of said manuals and plans and those of this Agreement, the terms of this Agreement shall prevail;

(b) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(c) maintain until the completion of the execution of the Project, the PIU with competent staff in adequate numbers;

(d) cause PROTRANSPORTE to participate until the completion of the execution of the Project in quarterly consultation meetings with relevant municipal agencies in charge of urban transport, and submit minutes of said consultation meetings to the Bank;

(e) enter into and implement until the completion of the execution of the Project the Institutional Cooperation Arrangements, each satisfactory to the Bank, and except as the Bank shall otherwise agree, shall not amend or waive any substantive provision of said Arrangements without the Bank's prior written approval. These Arrangements will not be amended or waived if, in the opinion of the Bank, such amendments or waivers may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof. In case of any conflict between the terms of said Arrangements and those of this Agreement, the terms of this Agreement shall prevail; and

(f) maintain until the completion of the execution of the Project the Municipal Ordinance providing for the intangibility of the transport corridor and



regulating the use of its protected zone and the Policy Guidelines for road-based public transport and except as the Bank shall otherwise agree, shall not amend or waive any provision of said Municipal Ordinance and Policy Guidelines without the Bank's prior written approval. This Municipal Ordinance and Policy Guidelines will not be amended, suspended, abrogated, repealed or waived if, in the opinion of the Bank, such amendment, suspension, abrogation, or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. Semi-Annual Progress Reports and Mid-Term Review

The Borrower, through PROTRANSPORTE, shall:

(a) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about January 31, and July 31 each year starting on the first such date after the Effective Date, a semi-annual progress report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Schedule, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(b) review with the Bank, by February 28 and August 31 each year starting on the month following the presentation of the first semi-annual progress report, or such later date as the Bank shall request, the report referred to in subparagraph (a) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter;

(c) by April 30, 2006, or such other date as the Bank shall agree upon, carry out jointly with the Bank a mid-term review of the implementation of operations under the Project (Midterm Review). The Midterm Review shall cover the progress achieved in the implementation of the Project; and

(d) following such Midterm Review, act promptly and diligently to take any corrective action as shall be recommended by the Bank.

3. Annual Operational Plan and Fiscal and Financial Action Plan

(a) The Borrower, through PROTRANSPORTE, shall, until the completion of the execution of the Project: (i) furnish to the Bank no later than January 31 each year, starting on January 31, 2005, an Annual Operational Plan acceptable to the Bank and covering the period remaining for the completion of the execution of the Project; (ii)

review with the Bank within four weeks following the submission of said plan referred to in subparagraph (i) of this paragraph said Annual Operational Plan; and (iii) thereafter take all measures required to ensure the efficient completion and achievement of said plan based on its conclusions and recommendations and on the views of the Bank on said plan.

(b) The Borrower shall, until the completion of the execution of the Project: (i) furnish to the Bank no later than January 31 each year, starting on January 31, 2005, Fiscal and Financial Action Plan acceptable to the Bank and covering the period remaining for the completion of the execution of the Project; (ii) review with the Bank within four weeks following the submission of said plan referred to in subparagraph (i) of this paragraph said Fiscal and Financial Action Plan; and (iii) thereafter take all measures required to ensure the efficient completion and achievement of said plan based on its conclusions and recommendations and on the views of the Bank on said plan.

4. Annual Procurement Audits and General Procurement Plan

(a) The Borrower, through PROTRANSPORTE, shall:

- (i) have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles, 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 fiscal year, the procurement audit report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.

(b) The Borrower, through PROTRANSPORTE, shall:

- (i) prepare and furnish to the Bank, on or about July 31 and January 31 each year starting on July 31, 2004, a general procurement plan, satisfactory to the Bank, detailing all procurement activities under the Project for the following twelve months;

- (ii) review with the Bank, by August 31 and February 28 each year starting on August 31, 2004, or such later date as the Bank shall request, the plan referred to in paragraph (i) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the plan based on its recommendations and the Bank's views on the matter.

(c) In case of any conflict between the terms of a General Procurement Plan and those of this Agreement, the terms of this Agreement shall prevail.

5. Micro-Credits under Part B.2. of the Project

(a) Without limitation upon the provisions of paragraph 1 of this Schedule, the Borrower, through PROTRANSPORTE, shall monitor the activities under Part B.2. of the Project and supervise the Micro-Credits made by the Micro-Credit Institutions in accordance with the provisions and procedures set forth in (i) this paragraph; (ii) the Institutional Cooperation Arrangements executed between the Borrower and said Micro-Credit Institutions; and (iii) the Micro-Credit Operational Manual;

(b) the Micro-Credits shall be requested by a Beneficiary up to an aggregate amount of \$10,000 equivalent and solely for the purpose of the activities under Part B.2. of the Project;

(c) the Micro-Credits shall be carried out pursuant to a Micro-Credit Agreement, to be concluded between the Micro-Credit Institution and each Beneficiary, under terms and conditions described in more details in the Micro-Credit Operational Manual; and

(d) the Borrower, through PROTRANSPORTE, shall cause the Micro-Credit Institution to exercise its rights under the Micro-Credit Agreements in such manner as to protect its interests and the interests of the Borrower, PROTRANSPORTE the Guarantor and the Bank in order to accomplish the purposes of Part B.2. of the Project, and, except as the Borrower, PROTRANSPORTE and the Bank shall otherwise agree, the Micro-Credit Institution shall not assign or abrogate the Micro-Credit Agreements or any provision thereof.

## **SCHEDULE 6**

### **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 works, goods 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 an amount equivalent to \$3,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,500,000 until the aggregate amount of withdrawals from the Loan Account for the categories specified in paragraph 1 (a) of this Schedule plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$6,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
  - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, 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 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 Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

**SCHEDULE 7**

**Performance Indicators**

The performance indicators for the Project shall include the following, said indicators being subject to modifications by agreement between the Borrower and the Bank:

<b>Performance Indicators</b>	<b>Target Dates</b>	
	<b>Mid Term</b>	<b>End of Project</b>
1. Number of km's of High Capacity Bus Corridors completed	15.5 km	29.4 km
2. Number of bus-stops and terminals completed	19 bus-stops and South terminal in operation	35 bus-stops and North and South terminal in operation
3. Number of passengers using the new system	200,000 passengers per typical weekday	600,000 passengers per typical weekday
4. Operation of system of high capacity bus-corridors	Regulation covering the operational aspects of the system adopted and at least 1 bus service concession for the system awarded	Whole system covered by the project in operation and all related concessions awarded
5. Recuperation of public space		100,000 square meters of public space recuperated and improved as well as 40,000 square meters of green zones
6. Air Quality Monitoring	Monitoring network with 3 stations implemented and in operation	Monitoring results made available in Annual Report to the public
7. Institutional strengthening of municipal transport agencies	At least 40 municipal staff trained in planning, management and control of public transport	At least 50 municipal staff trained in planning, management and control of public transport
8. Social impact mitigation	At least 800 affected public transport workers have benefited from micro credits or have received training for re-insertion in labor market	At least 2,500 affected public transport workers have benefited from micro credits or have received training for re-insertion in labor market.

