

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7382-AR

Loan Agreement

(Urban Flood Prevention and Drainage Project)

between

ARGENTINE REPUBLIC

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 8, 2007

Public Disclosure Authorized

LOAN AGREEMENT

AGREEMENT, dated May 8, 2007, between ARGENTINE REPUBLIC (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter from the Borrower, dated December 27, 2005, describing a flood prevention program designed to reduce provincial vulnerability to flooding (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes (excluding the export tax and the financial transaction tax) levied by, or in the territory of, the Borrower on the goods or services to be financed under the Loan, or on their importation (with the exception of import tariffs above 28%), manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."

(b) “Section 6.03 (c) of the General Conditions is amended by replacing the words ‘corrupt or fraudulent’ with the words ‘corrupt, fraudulent, collusive or coercive’ ”.

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

(a) “Environmental Management Plan” means the Borrower’s plan (acceptable to the Bank) dated October 4, 2005, which plan describes, *inter alia*, the actions to be undertaken or caused to be undertaken by the Borrower and/or the pertinent Participating Province I in order to mitigate any environmental impact resulting from the carrying out of the Project activities under their responsibility (in particular from the carrying out of any Subproject I), as said plan may be amended from time to time with the agreement of the Bank;

(b) “Environmental Manual” means the Borrower’s manual (acceptable to the Bank) dated December 29, 2005 set forth in the Implementation Letter, which manual includes, *inter alia*, environmental mitigation measures to be followed by contractors during the carrying out of the works under Subprojects, as the same may be amended from time to time with the agreement of the Bank;

(c) “Fiscal Responsibility Law” means the Borrower’s law No. 25.917 dated August 4, 2004 (duly published in the Borrower’s official gazette on August 25, 2004), which establishes, *inter alia*, a federal regime of fiscal responsibility with the objective of ensuring fiscal sustainability at the provincial level, through the setting of general rules of fiscal behavior and the provision of greater transparency in public management, and such term also includes the regulations to said law;

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

(e) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank setting forth the Environmental Manual and the Resettlement Policy Framework;

(f) “Operational Manual” means the Borrower’s manual (acceptable to the Bank) dated March 20, 2006, referred to in Section 3.06 (a) (i) of this Agreement, as the same may be amended from time to time with the agreement of the Bank;

(g) “Participating Province” means a Participating Province I and/or a Participating Province II (as the case may be);

(h) “Participating Province I” means any of the following political subdivisions of the Borrower, as per title Two of the Borrower’s 1994 Constitution: Chaco, Corrientes, Entre Ríos, Misiones and Santa Fe, which provinces meet the eligibility criteria set forth in the Operational Manual (as defined above) to carry out any given Subproject (as defined below) and the pertinent Project activities under Parts A, B and D.1 of the Project, all under the corresponding territorial jurisdiction of the same;

(i) “Participating Province II” means any of the Borrower’s political subdivisions, as per title Two of the Borrower’s 1994 Constitution (other than Participating Provinces I), which provinces meet the eligibility criteria set forth in the Operational Manual (as defined above) to carry out the pertinent Project activity under Part A.2 of the Project under the corresponding territorial jurisdiction of the same;

(j) “Procurement Plan” means the Borrower’s procurement plan, dated December 16, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(k) “Provincial Public Institution” means an agency and/or a legal entity within the jurisdiction of a Participating Province which is legally responsible for flood emergency and/or risk reduction (as the case may be);

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

(m) “Resettlement Policy Framework” means the Borrower’s framework dated December 13, 2005 set forth in the Implementation Letter, which framework includes, *inter alia*, the principles and objectives governing resettlement preparation and implementation, a description of the process for preparing and approving resettlement plans, and the applicable legal framework of each Participating Province I to address Resettlement;

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

(o) “Subproject” means a Subproject I and/or a Subproject II (as the case may be);

(p) “Subproject I” means any of the investments referred to in Part C.1 of the Project which are listed in the Operational Manual;

(q) “Subproject II” means any of the investments referred to in Part C.2 of the Project;

(r) “Subsidiary Loan” means a loan to be provided under a Subsidiary Loan Agreement (as defined below);

(s) “Subsidiary Loan Agreement” means a Subsidiary Loan Agreement I and/or a Subsidiary Loan Agreement II (as the case may be);

(t) “Subsidiary Loan Agreement I” means any of the agreements referred to in Section 3.04 (a) of this Agreement, as the same may be amended from time to time with the agreement of the Bank;

(u) “Subsidiary Loan Agreement II” means any of the agreements referred to in Section 3.05 (a) of this Agreement, as the same may be amended from time to time with the agreement of the Bank;

(v) “SUEP” means any of the Participating Provinces’ I implementation units referred to in paragraph (c)(x)(A) of Schedule 6 to this Agreement, or any successor thereto, acceptable to the Bank; and

(w) “UEC” means the *Unidad Ejecutora Central*, the central implementation unit under the jurisdiction of the Borrower’s Ministry of Federal Planning, Public Investment and Services, or any successor thereto, acceptable to the Bank.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to: (a) each Participating Province I in respect of the pertinent Subproject and Project activities under Parts A, B and D.1 of the Project; and (b) each Participating Province II in respect of the pertinent Project activities under Part A.2 of the Project.

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 seventy million Dollars (\$70,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars a separate special deposit account in *Banco de la Nación Argentina* 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 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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 at a rate of three fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

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 15 and November 15 in each year.

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objective of the Project, and, to this end, shall:

(a) carry out Part D.2 of the Project, through the UEC, with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Part of the Project;

(b) (i) cause each Participating Province I through the corresponding SUEP (pursuant to the terms of the corresponding Subsidiary Loan Agreement I, as said term is defined in Section 1.02 (t) of this Agreement) to carry out the pertinent Subproject (as said term is defined in Section 1.02 (o) of this Agreement) and Project activities under Parts A, B and D.1 of the Project (all under the territorial jurisdiction of each Participating Province I), with the assistance of the pertinent Provincial Public Institutions and municipalities (as the case may be), with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering and environmental practices; (ii) take and/or cause to be taken (as the case may be) all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each Participating Province I to carry out the corresponding Subproject and Project activities under said Parts of the Project; and (iii) not take or permit to be taken any action which would prevent or interfere with the carrying out of the same; and

(c) (i) cause each Participating Province II (pursuant to the terms of the corresponding Subsidiary Loan Agreement II, as said term is defined in Section 1.02 (u) of this Agreement) to carry out the pertinent Project activity under Part A.2 of the Project under the territorial jurisdiction of each Participating Province II), with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering and environmental practices; (ii) take and/or cause to be taken (as the case may be) all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each Participating Province II to carry out the corresponding Project activity under said Part of the Project; and (iii) not take or permit to be taken any action which would prevent or interfere with the carrying out of the same.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

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

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. (a) For purposes of: (i) carrying out: (A) any Subproject; and (B) the pertinent Project activities under Parts A, B and D.1 of the Project, all under the territorial jurisdiction of a given Participating Province I; and (ii) financing the carrying out of Part D.2 of the Project, the Borrower shall onlend a portion of the proceeds of the Loan allocated to Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement (the Subsidiary Loan) to said Participating Province I under a subsidiary loan agreement (the Subsidiary Loan Agreement I) to be entered into between the Borrower and said Participating Province I under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 6 to this Agreement.

(b) (i) The Borrower shall exercise its rights (including its rights referred to in paragraph (b) of Schedule 6 to this Agreement) and carry out its obligations under each Subsidiary Loan Agreement I in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan in respect of any Subproject and the relevant Project activities under Parts A, B and D.1 of the Project carried out or to be carried out by the pertinent Participating Province I; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Subsidiary Loan Agreement I or any provision thereof in a manner that impedes the accomplishment of the purposes mentioned in (i) herein.

Section 3.05. (a) For purposes of carrying out the relevant Project activity under Parts A.2 of the Project under the territorial jurisdiction of a given Participating Province II, the Borrower shall onlend a portion of the proceeds of the Loan allocated to Category (3) (c) set forth in the table in paragraph 1 of Schedule 1 to this Agreement (the Subsidiary Loan) to said Participating Province II under a subsidiary loan agreement (the Subsidiary Loan Agreement II) to be entered into between the Borrower and said Participating Province II under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 7 to this Agreement.

(b) (i) The Borrower shall exercise its rights (including its rights referred to in paragraph (b) of Schedule 7 to this Agreement) and carry out its obligations under each Subsidiary Loan Agreement II in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan in respect of the relevant Project activity under Part A.2 of the Project carried out or to be carried out by the pertinent Participating Province II; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Subsidiary Loan Agreement II or any provision thereof in a manner that impedes the accomplishment of the purposes mentioned in (i) herein.

Section 3.06. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project and/or cause the Project to be carried out in

accordance with: (i) the provisions of a manual which shall include, *inter alia*: (A) the eligibility criteria for selecting Participating Provinces I (which criteria shall include, *inter alia*: the adoption of a risk reduction plan (which plan shall include, *inter alia*, a description of the pertinent Subprojects I and relevant Project activities to be carried out by said province, the pertinent Provincial Public Institutions, the financial and human resources needed to implement the pertinent plan under Section 3.07 (a) (i) (B) of this Agreement and disseminate and update the relevant Project activities under Part A.1 of the Project (as the case may be), and performance indicators), a financial management system and procurement system, all acceptable to the Bank, and, if applicable, the adoption of action plans to be followed by Participating Provinces I to strengthen their financial management and procurement capacity) and Participating Provinces II; (B) the technical, economic, social and environmental criteria for approving Subprojects (which criteria shall include, *inter alia*, that each Subproject, in the judgment of the Bank, will not: (1) adversely change the quality or quantity of water flows to the other riparians; and (2) be adversely affected by other riparians' possible water use); (C) the environmental guidelines to be followed by the Participating Provinces I in: (1) the preparation of the environmental management plans in respect of Subprojects II; and (2) the carrying out of the environmental assessments in respect of Subprojects II, all as referred to in Section 3.07 of this Agreement; (D) the Environmental Management Plan; (E) the eligibility criteria for benefiting under Part B of the Project, and the vouchers mechanism to provide the construction materials to the beneficiaries under said Part of the Project; (F) the institutional and administrative structure of the UEC and pertinent SUEPs and their functions and responsibilities; (G) the terms of reference for preparing the quarterly reports referred to in Section 3.10 (b) of this Agreement; (H) the Project's chart of accounts, internal controls, and budgeting, accounting and financial reporting systems; (I) the FMR formats; (J) the terms of reference for carrying out the Project audits under Section 4.01 (b) (i) of this Agreement; (K) the Project disbursement and procurement procedures; (L) the Project indicators; and (M) the terms of reference for the design of the procurement information system referred to in Section 3.12 of this Agreement; and (ii) the provisions of the Environmental Manual.

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

Section 3.07. Without limitation to the pertinent provisions of this Agreement, and upon approval by the Bank of a given Subproject, the Borrower shall cause the corresponding Participating Province I to:

(a) (i) prior to the commencement of any works under the pertinent Subproject I: (A) implement and/or cause to be implemented (as the case may be) the corresponding mitigatory activities identified in the Environmental Management Plan in accordance with the terms set forth in said plan (if applicable); and (B) prepare and furnish to the Bank a plan for the operation and maintenance of said Subproject I, acceptable to the Bank (which plan shall include, *inter alia*, the agency and/or legal entity (as the case may be) responsible for the operation and maintenance of said Subproject I and the appropriate budget to finance the operation and maintenance activities); and (ii) immediately after the pertinent works under said Subproject I have been satisfactorily completed, implement and/or cause to be implemented said operation and maintenance plan in accordance with its terms; and

(b) (i) prior to the commencement of any works under the pertinent Subproject II: (A) carry out an environmental assessment of the pertinent works and, if determined by the Bank, approve an environmental management plan, acceptable to the Bank, for said works (which plan

shall be based on the results of the environmental assessment mentioned herein, and the Bank's comments on the results of said assessment, if any); and (B) prepare and furnish to the Bank a plan for the operation and maintenance of said Subproject II, acceptable to the Bank (which plan shall include, *inter alia*, the agency and/or legal entity (as the case may be) responsible for the operation and maintenance of said Subproject II and the appropriate budget to finance the operation and maintenance activities); (ii) immediately after the approval of the pertinent environmental management plan mentioned in (b) (i) (A) herein, implement and/or cause to be implemented (as the case may be) said plan in accordance with its terms; and (iii) immediately after the pertinent works under said Subproject II have been satisfactorily completed, implement and/or cause to be implemented the operation and maintenance plan referred to in (b) (i) (B) herein in accordance with its terms, all in accordance with the provisions of the Operational Manual.

Section 3.08. Without limitation to the pertinent provisions of this Agreement, and if as a result of the definition of the sitting alignments in respect of a Subproject I and/or the carrying out of the pertinent environmental impact assessment in respect of a Subproject II (as referred to in Section 3.07 (b) (i) (A) of this Agreement), it is determined by the Bank that Resettlement will be involved in respect of a given Subproject, the Borrower shall cause the pertinent Participating Province I to: (a) prior to the carrying out of any works under the corresponding Subproject, prepare and furnish to the Bank a resettlement plan (acceptable to the Bank) for each said Subproject (which plan shall be consistent with the provisions of the Resettlement Policy Framework); and (b) immediately thereafter implement and/or cause to be implemented each resettlement plan in accordance with its terms, and in a manner acceptable to the Bank.

Section 3.09. (a) The Borrower shall operate and maintain, at all times during Project implementation, the UEC with a structure, functions and responsibilities acceptable to the Bank (as described in the Operational Manual), including, *inter alia*, the responsibility to assist the Borrower in: (i) the carrying out of Part D.2 of the Project; and (ii) the monitoring, coordination and supervision of the overall implementation of the Project.

(b) The Borrower shall ensure that the UEC is, at all times during Project implementation, headed by a Project coordinator and assisted by professional staff (including a financial management specialist and a procurement specialist) and administrative staff, all in numbers and with qualifications and experience acceptable to the Bank.

Section 3.10. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than thirty days after the end of each calendar quarter during Project implementation (starting with the report due in April 2007), a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar quarter preceding the date of presentation of said report (including detailed information concerning the status of

procurement as of said date) and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the following calendar quarter;

(c) review with the Bank and the Participating Provinces not later than April 30 of each year of Project implementation (starting in the year 2007), the pertinent reports referred to in paragraph (b) of this Section and, thereafter, if applicable, take and/or cause to be taken, as the case may be, all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter; and

(d) (i) as part of each annual review referred to in paragraph (c) above, assess with the Bank and the Participating Provinces I the performance of each Participating Province I in respect of compliance with the provisions of the pertinent Subsidiary Loan Agreement I. If as a result of any of said annual assessments the Bank determines that a given Participating Province I has failed to comply with any of its obligations under the pertinent Subsidiary Loan Agreement I, the Borrower may remove one or more Subprojects I and/or Subprojects II (as the case may be), thus excluding the removed Subprojects from eligibility for financing under the Loan (but only if the removed Subprojects have not at that point already been approved by the Bank); and (ii) as part of the annual review to be carried out in April 30, 2009 (the mid-term review), the Borrower shall also review with the Bank and the Participating Provinces I the amount of Loan proceeds which, as of the date of said mid-term review, have not been committed to Participating Provinces I, through the corresponding Subsidiary Loan Agreement I. If, as of the date of the mid-term review, the Bank determines that there are outstanding Loan proceeds which have not been committed, the Borrower, in consultation with the relevant Participating Provinces I, may decide (as previously agreed with the Bank) to increase the amount of one or more existing Subsidiary Loans, provided that the relevant Participating Provinces I have demonstrated satisfactory progress in the carrying out of Subprojects, expressed their written interest in financing additional Subprojects with the proceeds of the Loan and of increasing the pertinent Subsidiary Loans, and expressed their written commitment to undertake all legal and administrative actions (acceptable to the Bank) to increase the corresponding Subsidiary Loan.

Section 3.11. The Borrower shall, prior to the commencement of each calendar year during Project implementation, create, and thereafter maintain throughout each said calendar year of Project implementation, a specific budget line entry in the relevant annual budget in order to keep track of the corresponding expenditures incurred during Project implementation.

Section 3.12. The Borrower shall: (a) not later than three months after the Effective Date, establish (in a manner acceptable to the Bank) a procurement information system so as to, *inter alia*, reflect information concerning the Borrower's and the Participating Provinces' procurement processes; and (b) immediately thereafter, implement said system in a manner acceptable to the Bank.

Section 3.13. Without limitation to the provisions referred to in Section 3.01 (b) of, and paragraph 2 (b) of Schedule 1 to, this Agreement, no withdrawals shall be made from the Loan Account to finance any increase in the contract amount in respect of any Subproject which results in a new amount in excess of 20% of the originally awarded contract amount. In said cases, the Borrower shall cause the pertinent Participating Province I to provide the necessary funding to finance said increase.

Section 3.14. Without limitation to the provisions of Section 4.01 (a) of this Agreement, the Borrower shall, not later than one calendar year after the Effective Date, develop a new financial management information system (in a manner acceptable to the Bank), and thereafter replace the current system with said system.

Section 3.15. The Borrower shall cause each Participating Province I to implement the pertinent risk reduction plan referred to in Section 3.06 (a) (i) (A) of this Agreement in accordance with the terms of the same, and in a manner acceptable to the Bank.

Section 3.16. The Borrower shall: (a) prior to the commencement of the bidding process with respect to any Subproject, prepare and furnish to the Bank the Project's standard bidding documents for Subprojects, acceptable to the Bank (which bidding documents shall include, *inter alia*, environmental provisions set forth in the Environmental Manual, the Environmental Management Plan in respect of each Subproject I and/or, if applicable in the specific environmental management plan in respect of Subprojects II (as referred to in Section 3.07 (b) (i) (A) of this Agreement)); and (b) thereafter cause each Participating Province I to use said standard bidding documents in the procurement of works under Subprojects.

ARTICLE IV

Financial Covenants

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

- (b) The Borrower shall:
- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said 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 shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.10 of this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

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

(b) The first FMR shall be furnished to the Bank not later than 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.

Section 4.03. The Borrower shall ensure that each Participating Province shall have agreed (through the pertinent Subsidiary Loan Agreement) to, *inter alia*, establish adequate mechanisms and/or undertake the appropriate actions to maintain compliance, at least during Project implementation, with the provisions of the Fiscal Responsibility Law (or with the provisions of a fiscal framework consistent with the principles and parameters embedded in the Fiscal Responsibility Law in case a Participating Province has not adhered to said law), so as to achieve fiscal sustainability.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause each Participating Province to carry on its operations and conduct its affairs in accordance with sound administrative, financial, technical, social, engineering and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional event is specified, namely, that as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Participating Province will be able to perform any of its obligations under the pertinent Subsidiary Loan Agreement.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:

(a) at least one Subsidiary Loan Agreement I has been signed by the parties thereto;
and

(b) that all action, satisfactory to the Bank, has been undertaken by the Participating Province I, for which a Subsidiary Loan Agreement I has been entered into in satisfaction of the condition referred to in paragraph (a) of this Section, in order to permit the corresponding Participating Province I to carry out the procurement of goods, works and services in accordance with the provisions of this Agreement.

Section 7.02. 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 Subsidiary Loan Agreement I entered into satisfaction of the condition set forth in Section 7.01 (a) of this Agreement has been duly authorized or ratified by the Borrower and the corresponding Participating Province I and is legally binding upon the Borrower and said Participating Province I in accordance with its terms; and

(b) that the actions referred to in Section 7.01 (b) of this Agreement have been taken and no other action on behalf of the Participating Province I in question is required to permit the procurement of goods, works and services in accordance with the provisions of this Agreement.

Section 7.03. The August 6, 2007 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister of Economy and Production of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Economía y Producción

Hipólito Yrigoyen 250

C1109ADA, Buenos Aires

Argentina

Cable address:

Telex:

Facsimile:

MINISTERIO DE ECONOMIA 121942-AR (5411) 4349-8815

Baires

With a copy to:

UEC
Hipólito Yrigoyen 250
Piso 12, Of. 1201
C1109ADA, Buenos Aires
Argentina

Facsimile: (5411) 4349-7568

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

ARGENTINE REPUBLIC

By/s/ FELISA MICELI

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By/s/ AXEL VAN TROTSENBURG

Authorized Representative

SCHEDULE 1**Withdrawal of the Proceeds of the Loan**

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Works under Subprojects	52,152,000	72% (except as provided in Section 3.13 of this Agreement)
(2) Construction materials under Part B of the Project	12,509,000	90% (except as provided in Section 5.08 of the General Conditions)
(3) Consultants' services		
(a) for the operation of UEC under Part D.2 of the Project	1,011,000)	
(b) for the operation of SUEPs under Part D.1 of the Project	1,380,000)	100%
(c) under Parts A, B.1 (c) and B.2 (c) of the Project	2,773,000)	
(4) Front-end fee	175,000	Amount due under Section 2.04 of this Agreement
TOTAL	<u>70,000,000</u> =====	

2. 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 exceeding \$3,900,000, may be made in respect of Categories (1), (2) and (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures within one year before that date but after April 1, 2006, if the pertinent set of conditions referred to in paragraph 2 (b) or (c) below have been met and the corresponding Participating Province has complied with the pertinent provisions of this Agreement;

(b) payments made to finance any Subproject and/or the pertinent Project activities under Parts A, B and D.1 of the Project within the jurisdiction of a given Participating Province I, and/or the carrying out of Part D.2 of the Project under Categories (1), (2) and (3) set forth in the table in paragraph 1 of this Schedule, unless:

- (i) the corresponding Subsidiary Loan Agreement I has been signed (or amended to increase the relevant Subsidiary Loan as provided in Section 3.10 (d) (ii) of this Agreement) by the respective parties thereto;
- (ii) said Participating Province I has undertaken all action, satisfactory to the Bank, in order to permit the corresponding Participating Province I to carry out the procurement of goods, works and services to be financed under the Loan for said Subproject and/or said Project activities under Parts A, B and D.1 of the Project in accordance with the provisions of this Agreement; and
- (iii) counsel for the Borrower and the corresponding Participating Province I, acceptable to the Bank, has each furnished to the Bank an opinion or opinions, acceptable to the Bank, providing that: (A) the pertinent Subsidiary Loan Agreement I (or its amendment thereto) has been duly authorized or ratified by the Borrower and the corresponding Participating Province I and is legally binding upon the Borrower and said Participating Province I in accordance with its terms; and (B) that all action referred to in (ii) above has been undertaken, and that no other action by said Participating Province I is required to permit the procurement of goods, works and services in accordance with the provisions of this Agreement; and

(c) payments made to finance the pertinent Project activity under Part A.2 of the Project within the jurisdiction of a given Participating Province II under Category (3) (c) set forth in the table in paragraph 1 of this Schedule, unless:

- (i) the corresponding Subsidiary Loan Agreement II has been signed by the respective parties thereto;
- (ii) said Participating Province II has undertaken all action, satisfactory to the Bank, in order to permit the corresponding Participating Province II to carry out the procurement of services to be financed under the Loan for said Project activity in accordance with the provisions of this Agreement; and
- (iii) counsel for the Borrower and the corresponding Participating Province II, acceptable to the Bank, has each furnished to the Bank an opinion or opinions, acceptable to the Bank, providing that: (A) the pertinent Subsidiary Loan Agreement II has been duly authorized or ratified by the Borrower and the corresponding Participating Province II and is legally binding upon the Borrower and said Participating Province II in accordance with its terms; and (B) that all action referred to in (ii) above

has been undertaken, and that no other action by said Participating Province II is required to permit the procurement of services in accordance with the provisions of this Agreement.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$350,000 equivalent per contract; (b) works costing less than \$5,000,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; and (d) services of consulting firms under contracts costing less than \$250,000 equivalent per contract, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce the Participating Provinces' vulnerability to flooding, through: (a) the strengthening of their flood emergency and risk reduction capacity; (b) the implementation of a housing program for the benefit of the lowest-income population living in urban flood-prone areas; and/or (c) the strengthening of flood defenses in geographic areas with strong economic activity and vulnerability to recurrent flooding.

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

Part A: Non Structural Measures

1. Carrying out of one or more non-structural measures in Participating Provinces I, which measures may consist (depending on the need for said measures in the pertinent Participating Province I, as determined by the Bank) of, *inter alia*: (a) the design of contingency plans for flood emergency (which plans include, *inter alia*: (i) the carrying out of a diagnosis of the functions and responsibilities of the pertinent Provincial Public Institutions, including the implementation of the recommendations resulting from said diagnosis, as agreed previously by the pertinent Participating Province I and the Bank; and (ii) the simulation of emergency exercises amongst said institutions, municipalities and local communities); (b) the design and issuance of regulations to the pertinent land use law; (c) the design and implementation of a communications program to inform stakeholders about the contents of the regulations mentioned in (b) herein; and (d) the design of an environmental program, which program may include, *inter alia*: (i) the design of urban environmental management plans and/or solid waste management plans, all for the benefit of cities within Participating Provinces I (as approved by the Bank); and (ii) the design and implementation of environmental education and public awareness campaigns in communities benefiting from the carrying out of Subprojects.
2. Carrying out of feasibility studies concerning future flood risk reduction activities, as approved by the Bank.
3. If applicable, the provision of technical assistance to Participating Provinces I in the preparation of Subprojects II (which assistance may relate to the carrying out of the pertinent technical, social and environmental assessments of said Subprojects II).

Part B: Social Emergency Interventions

1. If the Bank determines that Resettlement will be involved under any given Subproject (as referred to in Section 3.08 of this Agreement), carrying out of a housing program for the benefit of the population who would be affected by Resettlement under said Subproject and who opt to participate in said program, which program consists of, *inter alia*: (a) land acquisition by the pertinent Participating Province I in the market (not through involuntary taking); (b) provision of materials for construction of flood-resistant housing in non-flood prone areas by the beneficiaries of the program (or by the pertinent Participating Province I in cases where said beneficiaries are

considered disabled); and (c) the strengthening of said beneficiaries' capacity to carry out the housing construction mentioned in (b) herein.

2. Carrying out of a voluntary housing program in Participating Provinces I for low-income families residing in urban areas that are highly vulnerable to floods (which urban areas have not benefited or will not benefit from the carrying out of Subprojects), which program consists of, *inter alia*: (a) land acquisition by the pertinent Participating Province I in the market (not through involuntary taking); (b) provision of materials for construction of flood-resistant housing in non-flood prone areas by the beneficiaries of the program (or by the pertinent Participating Province in cases where said beneficiaries are considered disabled); and (c) the strengthening of said beneficiaries' capacity to carry out the housing construction mentioned in (b) herein.

Part C: Structural Measures

1. Carrying out of flood defense investments in Participating Provinces I to (without controlling the flow of rivers) protect economically dynamic and flood prone areas within flood plains of said provinces, which investments consist of minor additions or alterations of ongoing schemes such as: (a) minor construction of flood defense works and reconditioning of embankments (including the respective pumping stations); (b) minor construction of storm drainage works (including rehabilitation of existing urban and peri-urban drainage networks through, *inter alia*, the carrying out of dredging, straightening and cleaning activities); and (c) upgrading of the road bridges' network, all as approved by the Bank.

2. If needed, carrying out of any other investment of the same nature (as described in Part C.1 above), all as approved by the Bank.

Part D: Project Implementation and Administration

1. Strengthening of the Participating Provinces' I operational capacity to monitor and supervise the implementation of the Project activities under their responsibility.

2. Strengthening of the Borrower's operational capacity to monitor and supervise the overall implementation of the Project.

* * *

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

SCHEDULE 3

Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each May 15 and November 15 Beginning November 15, 2011 through May 15, 2021	5%

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

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

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

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

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

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

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

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. Without limitation to the provisions in paragraphs A and B of this Section, the following additional provisions shall also govern the procurement of goods, works and consultants' services under the Project (as the case may be):

(a) procurement of goods and works shall be carried out using standard bidding documents acceptable to the Bank;

(b) all contracts for works to be procured under the Project shall contain a methodology, acceptable to the Bank, whereby the price of each said contracts shall be adjusted through the use of price adjustment formulas, in a manner acceptable to the Bank;

(c) a two-envelope bidding procedure shall not be allowed in the procurement of goods and works;

(d) after the public opening of bids, information relating to the examination, clarification and evaluation of bids and proposals and recommendations concerning awards shall not be disclosed to bidders or consultants or other persons not officially concerned with this process until the publication of contract award (except as provided in paragraphs 2.20 and 2.27 of the Consultant Guidelines);

(e) bidders or consultants shall not, as a condition for submitting bids or proposals and/or for contract award: (i) be required to be registered in Argentina; (ii) have a representative in Argentina; and (iii) be associated or subcontract with Argentine suppliers, contractors or consultants;

(f) the invitations to bid, bidding documents, minutes of bid openings, requests for expressions of interest and the evaluation reports of bids and proposals of all goods and works and consultants' services, as the case may be, shall be published in the web page of the Borrower's Office of National Procurement (*Oficina Nacional de Contrataciones*);

(g) the provisions set forth in paragraphs 2.49, 2.50, 2.52, 2.53, 2.54 and 2.59 of the Procurement Guidelines shall also be applicable to contracts for goods and works to be procured under National Competitive Bidding procedures;

(h) references to bidders in one or more specialized magazines shall not be used by the Borrower and/or Participating Province (as the case may be) in determining if the bidder whose bid has been determined to be the lowest evaluated bid has the capability and resources to effectively carry out the contract as offered in the bid, as referred to in the provision set forth in paragraph 2.58 of the Procurement Guidelines. The provision set forth in paragraph 2.58 of the Procurement Guidelines (including the limitation set forth herein) shall also be applicable to contracts for goods and works to be procured under National Competitive Bidding procedures; and

(i) the types of contracts described in Section IV of the Consultant Guidelines (including the important provisions to be included in said contracts) shall be the only types of contracts to be used by the Borrower and/or the Participating Provinces (as the case may be) in connection with the contracting of consultants' services provided by a firm and to be financed with the proceeds of the Loan.

D. The capitalized terms used in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding.

(a) (i) Goods estimated to cost less than \$350,000 equivalent per contract; and (ii) works estimated to cost less than \$5,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

(b) For purposes of this paragraph, and without limitation to the provisions of paragraphs 3.3 and 3.4 of the Procurement Guidelines, the term National Competitive Bidding means the pertinent competitive bidding procedures used by the Borrower and/or the Participating Provinces for public procurement within their territorial jurisdiction (as the case may be).

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. 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, 3.7 and 3.8 of the Consultant Guidelines.

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

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

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for works estimated to cost the equivalent of \$3,000,000 or more; (b) the first two contracts for works to be procured on the basis of National Competitive Bidding and Shopping regardless of their cost; (c) the first two contracts for goods to be procured on the basis of National Competitive Bidding and Shopping; (d) each contract for consultants' services provided by a firm: (i) estimated to cost the equivalent of \$200,000 or more; and (ii) on the basis of Single-Source Selection; and (e) the first two contracts for consultants' services provided by a firm on the basis of Quality and Cost-Based Selection, Least Cost Selection and Selection Based on Consultants' Qualifications regardless of their cost. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the

Consultant Guidelines for each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, or to be selected on a sole source basis, shall be subject to Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5**Special Account**

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount of \$7,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the

respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the Project, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the

Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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

SCHEDULE 6**Terms and Conditions of Subsidiary Loan Agreements I**

Each Subsidiary Loan Agreement I shall contain, *inter alia*, the following provisions:

- (a) the obligation of the Borrower:
 - (i) to promptly disburse to each Participating Province I the proceeds of the corresponding Subsidiary Loan in a manner acceptable to the Bank; and
 - (ii) to allocate the front-end fee and commitment charge applicable to the Loan pursuant to Sections 2.04 and 2.05 of this Agreement proportionately among each Participating Province I;

- (b) the right of the Borrower to take remedial actions against the pertinent Participating Province I in case said Participating Province I shall have failed to comply with any of its obligations under the pertinent Subsidiary Loan Agreement I in respect of any Subproject and/or any Project activity under Parts A, B and D.1 of the Project within the jurisdiction of said Participating Province I (which actions may include, *inter alia*, the partial or total suspension and/or cancellation of the proceeds of the Subsidiary Loan (as the case may be), all as previously agreed with the Bank); and

- (c) the obligation of each Participating Province I:
 - (i) to use the Subsidiary Loan for: (A) financing the carrying out of: (1) Subprojects; and (2) the pertinent Project activities under Parts A, B and D.1 of the Project; and (B) financing a proportionate share of the cost of the provision of consultants' services under Part D.2 of the Project;
 - (ii) to provide the funds, facilities, services and other resources, necessary or appropriate to carry out the corresponding Subproject and/or the Project activities mentioned in (i) herein;
 - (iii) to repay the proceeds of the Subsidiary Loan (which Subsidiary Loan shall be denominated in Dollars equivalent and carry the same interest rate applicable to the Loan pursuant to Section 2.06 of this Agreement) withdrawn by the Participating Province (together with interest and other charges thereon): (A) in the same currency in which the corresponding principal amount of the Loan and interest and other charges thereon are to be repaid by the Borrower to the Bank pursuant to Article III of the General Conditions; and (B) under repayment terms (including payment of interest and commitment charges) that shall coincide with those repayment terms set forth in this Agreement;

- (iv) if applicable, to cause the corresponding Provincial Public Institution and municipality to assist the Participating Province I in the carrying out of the corresponding Subproject and the pertinent Project activities under Parts A and B of the Project, all in accordance with the pertinent provisions of this Agreement;
- (v) to comply with, or caused to be complied, the obligations referred to in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of said Subprojects and/or the Project activities mentioned in (i) herein;
- (vi) to take or permit to be taken all action to enable the Borrower to comply with its obligations under Sections 3.01 (b), 3.02, 3.03, 3.04, 3.06, 3.07, 3.08, 3.10, 3.12, 3.13, 3.15, 3.16, 4.01, 4.02, 4.03 and 5.01 of this Agreement;
- (vii) to participate in the reviews referred to in Section 3.10 (c) of this Agreement;
- (viii) to maintain compliance (including the obligation to establish adequate mechanisms and/or undertake the appropriate actions to maintain compliance), at least during Project implementation, with the provisions of the Fiscal Responsibility Law (or with the provisions of a fiscal framework consistent with the principles and parameters embedded in the Fiscal Responsibility Law in case a Participating Province has not adhered to said law), so as to achieve fiscal sustainability;
- (ix) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Subsidiary Loan Agreement I or any provision thereof unless previously agreed by the Bank;
- (x) (A) to operate and maintain (or cause to be operated and maintained) at all times during Project implementation, the pertinent provincial implementation unit, with a structure, functions and responsibilities acceptable to the Bank (as described in the Operational Manual); and (B) to ensure that the pertinent SUEP is, at all times during Project implementation, headed by a Project coordinator and assisted by professional staff (including a procurement specialist) and administrative staff, all in numbers and with qualifications and experience acceptable to the Bank; and
- (xi) to set forth in an annex to the pertinent Subsidiary Loan Agreement I the pertinent risk reduction plan referred to in Section 3.06 (a) (i) (A) of this Agreement.

SCHEDULE 7**Terms and Conditions of Subsidiary Loan Agreements II**

Each Subsidiary Loan Agreement II shall contain, *inter alia*, the following provisions:

(a) the obligation of the Borrower to promptly disburse to each Participating Province II the proceeds of the corresponding Subsidiary Loan in a manner acceptable to the Bank; and

(b) the right of the Borrower to take remedial actions against the pertinent Participating Province II in case said Participating Province II shall have failed to comply with any of its obligations under the pertinent Subsidiary Loan Agreement II in respect of the relevant Project activity under Part A.2 of the Project within the jurisdiction of said Participating Province II (which actions may include, *inter alia*, the partial or total suspension and/or cancellation of the proceeds of the Subsidiary Loan (as the case may be), all as previously agreed with the Bank); and

(c) the obligation of each Participating Province II:

(i) to use the Subsidiary Loan for the financing of the carrying out the pertinent Project activity under Part A.2 of the Project;

(ii) to provide the funds, facilities, services and other resources, necessary or appropriate to carry out the corresponding Project activity mentioned in (i) herein;

(iii) to repay the proceeds of the Subsidiary Loan (which Subsidiary Loan shall be denominated in Dollars equivalent and carry the same interest rate applicable to the Loan pursuant to Section 2.06 of this Agreement) withdrawn by the Participating Province (together with interest and other charges thereon): (A) in the same currency in which the corresponding principal amount of the Loan and interest and other charges thereon are to be repaid by the Borrower to the Bank pursuant to Article III of the General Conditions; and (B) under repayment terms (including payment of interest and commitment charges) that shall coincide with those repayment terms set forth in this Agreement;

(iv) if applicable, to cause the corresponding Provincial Public Institution and municipality to assist the Participating Province II in the carrying out of the corresponding Subproject and the pertinent Project activities under Part A.2 of the Project, all in accordance with the pertinent provisions of this Agreement;

(v) to comply with, or caused to be complied, the obligations referred to in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions

(relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of said Subprojects and/or the Project activities mentioned in (i) herein;

- (vi) to take or permit to be taken all action to enable the Borrower to comply with its obligations under Sections 3.01 (c), 3.02, 3.03, 3.05, 3.06, 3.10, 4.01, 4.02, 4.03 and 5.01 of this Agreement;
- (vii) to participate in the reviews referred to in Section 3.10 (c) of this Agreement;
- (viii) to maintain compliance (including the obligation to establish adequate mechanisms and/or undertake the appropriate actions to maintain compliance), at least during Project implementation, with the provisions of the Fiscal Responsibility Law (or with the provisions of a fiscal framework consistent with the principles and parameters embedded in the Fiscal Responsibility Law in case a Participating Province has not adhered to said law), so as to achieve fiscal sustainability; and
- (ix) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Subsidiary Loan Agreement II or any provision thereof unless previously agreed by the Bank.