
LOAN NUMBER 4379- GU

Loan Agreement

(Reconstruction and Local Development Project)

between

REPUBLIC OF GUATEMALA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 4, 1998

LOAN NUMBER 4379-GU

LOAN AGREEMENT

AGREEMENT, dated December 4, 1998, between
REPUBLIC OF GUATEMALA (the Borrower) and INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, 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 Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997 (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "*Banco de Guatemala*" means the Borrower's central bank;
- (b) "Beneficiary" means a community organization which has been established as a legal entity to operate within the Borrower's territory and meets the criteria set forth in the Orientation Manual to be eligible for carrying out a Community Subproject;

(c) "Community Subproject" means any of the projects described in Part A of the Project to be carried out by a Beneficiary;

(d) "Eligible Municipality" means a municipality which meets the criteria set forth in the Orientation Manual to be eligible for participating under Part B.1 of the Project;

(e) "Executive Accords" means *Acuerdo Gubernativo* No. 408-91 dated June 28, 1991 and *Acuerdo Gubernativo* No. 244-92 dated April 13, 1992, of the Borrower as such accords have been amended to the date of this Agreement;

(f) "FONAPAZ" means the National Peace Fund (*Fondo Nacional para la Paz*) of the Borrower established pursuant to the Executive Accords;

(g) "Implementation Letter" means the letter of even date herewith from the Borrower to the Bank setting forth the Project's performance indicators and targets, as such letter may be amended from time to time with the agreement of the Bank;

(h) "Ministerial Accord" means *Acuerdo Ministerial* No. 23-92 dated May 18, 1992 of the Borrower which regulates the operation of the Trust Fund, as such accord has been amended to the date of this Agreement;

(i) "Orientation Manual" means the Borrower's manual, satisfactory to the Bank, which sets forth, inter alia: (1) the criteria for selection of Community Subprojects; (2) the list of subprojects which shall not be financed with the Loan proceeds; (3) the criteria for selection of Beneficiaries and Eligible Municipalities; (4) the terms and conditions of Subproject Agreements; (5) the disbursement and procurement procedures to be followed during the carrying out of the Project; (6) the procedures to carry out environmental, social, financial, economic and other technical evaluations of each Community Subproject; and (7) the contents of the training to be provided under Part B of the Project, as such manual may be amended from time to time with the agreement of the Bank;

(j) "PCU" means the unit referred to in Section 3.04 (a) of this Agreement;

(k) "Project Area" means the area covered by the Departments of *Huehuetenango* and *San Marcos*, as such area may be expanded from time to time with the agreement of the Bank;

(l) "Subproject Agreement" means any of the agreements referred to in Section 3.01(b) of this Agreement;

(m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(n) "Trust Fund" means the account (*Fideicomiso de FONAPAZ*) opened by the Borrower in *Banco de Guatemala*, the trustee, pursuant to the Trust Fund Agreement; and

(o) "Trust Fund Agreement" means the agreement entered into between the Borrower and *Banco de Guatemala* dated December 26, 1991 as such agreement has been amended to the date of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to thirty million Dollars (\$30,000,000).

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 and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in *Banco de Guatemala* on terms and conditions satisfactory to the Bank. 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 June 30, 2003 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 commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent ($1/2$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable April 15 and October 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement

Section 2.08. The Executive Director of FONAPAZ (or such other person or persons as the Minister of Finance of the Borrower shall appoint in writing) is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through FONAPAZ with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and environmental practices, and in accordance with the Orientational Manual, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For purposes of carrying out Part A of the Project, the Borrower shall transfer, on a grant basis, to the corresponding Beneficiary a portion of the proceeds of the Loan (allocated under Category (1) of the table in paragraph 1 of Schedule 1 to this Agreement) under an agreement (the Subproject Agreement) to be entered into between the Borrower and such Beneficiary under terms and conditions satisfactory to the Bank, including, inter alia, those set forth in Schedule 6 to this Agreement.

(c) The Borrower shall exercise its rights under each Subproject Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, terminate, waive or fail to enforce any Subproject Agreement or any provision thereof.

(d) The Borrower shall operate and maintain during the implementation of the Project the Trust Fund in accordance with the provisions of the Trust Fund Agreement and the Ministerial Accord for purposes of administering and disbursing the Loan proceeds and the counterpart funds for the Project.

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 9.08 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 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) The Borrower shall establish within FONAPAZ, and thereafter operate and maintain during the implementation of the Project a Project coordination unit (the PCU) with functions and responsibilities satisfactory to the Bank, including, inter alia, the responsibility to coordinate, monitor and supervise the implementation of the Project.

(b) The Borrower shall ensure that the PCU is at all times headed by a Project coordinator and assisted by staff in adequate numbers, all with qualifications and experience satisfactory to the Bank.

Section 3.05. The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators and targets set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objectives thereof.

Section 3.06. Without limitation to the provisions of Section 9.07 of the General Conditions, the Borrower shall not later than forty five days after the conclusion of each calendar semester during the implementation of the Project, starting in 1999, prepare and furnish to the Bank a report of such scope and in such detail as the Bank shall reasonably request with respect to the progress made by the Borrower in the carrying out of the Project during the calendar semester preceding the date of presentation of such report.

Section 3.07. (a) Without limitation to the provisions of Section 3.01 (a) of this Agreement, the Borrower shall: (i) not later than September 30 of each year during Project implementation, starting in the year 1999, prepare and furnish to the Bank a plan of such scope and in such detail as the Bank shall reasonably request with respect to the activities to be carried out under the Project during the calendar year following the date of presentation of such plan; and (ii) thereafter carry out such plan in accordance with its terms.

(b) In the preparation of the annual plans referred to in paragraph (a) (i) above, the Borrower shall take into account: (i) the recommendations set forth in the corresponding progress reports referred to in Sections 3.06 of this Agreement; and (ii) the results of the corresponding annual ex-post evaluation and assessment carried out under Part C.2 of the Project.

Section 3.08. Without limitation to the provisions of Section 9.01 of the General Conditions, the Borrower shall not later than August 31 of each year of Project implementation, starting in 1999, review jointly with the Bank the: (a) progress made by the Borrower in: (i) carrying out the Project; and (ii) achieving the objectives of the Project, based on the indicators and the corresponding reports referred to in Sections 3.05 and 3.06 of this Agreement, respectively, as well as on the results of the corresponding annual ex-post evaluation and assessment carried out under Part C.2 of the Project; and (b) FONAPAZ's standard unit prices system. As part of each such review the Bank may require the Borrower to prepare an action plan, satisfactory to the Bank, to make adjustments in Project implementation. In such event, the Borrower shall not later than forty five days after the conclusion of each such review furnish such action plan to the Bank and shall thereafter carry out, or cause to be carried out, such action plan in accordance with its terms.

Section 3.09. In the event that the environmental evaluation of a particular Community Subproject (to be carried out prior to the approval of each Community Subproject) recommends actions to be taken by the Borrower to address any negative environmental impact, the Borrower shall take or cause to be taken all such actions in a manner satisfactory to the Bank.

Section 3.10. The Borrower shall: (a) not later than 12 months after the Effective Date complete the preparation of the baseline data referred to in Part C.4 (a) of the Project; and (b) not later than June 30, 2002 prepare and furnish to the Bank a report of such scope and in such detail as the Bank shall reasonably request containing the results of the survey mentioned in Part C.4 (b) of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain in FONAPAZ a financial management system, including records and separate accounts and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a 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 records and accounts and the audit thereof, and concerning said auditors, as the Bank shall 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) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for 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;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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) that the Executive Accords or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect, in the opinion of the Bank, the ability of the Borrower, through FONAPAZ, to carry out the Project;
- (b) that the Borrower shall have assigned, amended, abrogated, suspended, terminated, waived or not enforced the Trust Fund Agreement or any provision thereof in such a manner so as to affect, in the opinion of the Bank, the ability of the Borrower through FONAPAZ, to carry out the Project;
- (c) that the Ministerial Accord or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as

to affect, in the opinion of the Bank, the ability of the Borrower, through FONAPAZ, to carry out the Project; and

(d) that the *Banco de Guatemala* (as trustee of the Trust Fund) shall have failed to comply with any of its obligations under the Trust Fund Agreement.

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

(a) that any of events specified in paragraphs (a) or (b) or (c) of Section 5.01 of this Agreement shall occur; and

(b) that the event specified in paragraph (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.

ARTICLE VI

Effective Date; Termination

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

(a) That the Orientation Manual has been approved by the Borrower.

(b) (i) that the financial management system referred to in Section 4.01 (a) of this Agreement has been established; and (ii) that the Borrower, through FONAPAZ, shall have adopted a format, acceptable to the Bank, to prepare its financial statements as provided in Section 4.01 (a) of this Agreement.

(c) That a plan, as provided in Section 3.07 of this Agreement, for the activities to be carried out under the Project during 1999 has been furnished to the Bank.

(d) That the PCU has been established and staffed as provided in Section 3.04 of this Agreement.

(e) That the Borrower has furnished to the Bank a report, satisfactory to the Bank, containing the results of FONAPAZ's latest ex-post evaluation of its ongoing projects.

Section 6.02. The date March 4, 1999 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Finanzas Públicas
8a Avenida y 21 Calle
Centro Cívico
Zona 1, Guatemala

Cable address:
MINFIP
Guatemala, Guatemala

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:

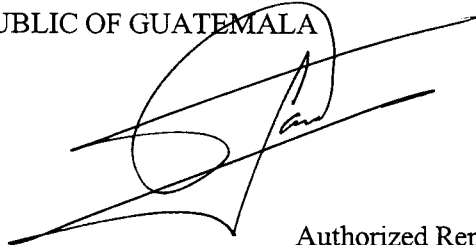
INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF GUATEMALA

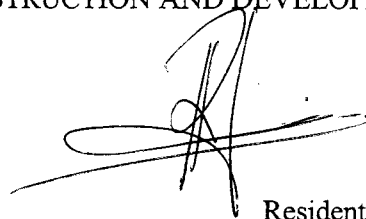
By



Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Resident 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>	Amount of the Loan Allocated (Expressed in <u>Dollars</u>)	% of Expenditures to be Financed
(1) Community Subprojects	21,000,000	75%
(2) Goods other than under Category (1)	4,000,000	100% of foreign expenditures and 75% of local expenditures
(3) Consultants' services other than under Category (1)	2,000,000	100%
(4) Training other than under Category (1)	1,500,000	100%
(5) Audits	500,000	100%
(6) Unallocated	<u>1,000,000</u>	
Total	<u>30,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Training" means expenditures (other than those for Consultants' services) incurred by the Borrower to carry out training activities under the Project, including the per-diem and travel cost of the trainees.

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 exceeding \$3,000,000, may be made in respect of Categories (1) through (4) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but within twelve months from the date of this Agreement; and

(b) payments made for expenditures under Category (1) of such table unless the Subproject Agreement for the corresponding Community Subproject has been signed by the parties thereto.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods to be awarded under Parts B.2 (a) and B.3 of Section I of Schedule 4 to this Agreement with the exception of the first two contracts to be awarded under such Parts each calendar year during Project implementation; (b) contracts for goods, works and/or technical services under Community Subprojects; (c) contracts for the employment of consulting firms costing less than \$50,000 equivalent; (d) contracts for the employment of individual consultants costing less than \$25,000 equivalent; and (e) Training as set forth in Category (4) of the table in paragraph 1 of this Schedule, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the living standards and the sustainable self-development of approximately five hundred thousand people living in extreme poverty in the Project Area.

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: Community Subprojects

Financing of projects consisting of small cultural, social or economic infrastructure investments (including the acquisition and utilization of goods and the provision of technical assistance and/or training, as appropriate) in areas such as education, health, rural water and sanitation, pollution prevention, trade or roads which meet the eligibility criteria set forth in the Orientation Manual.

Part B: Capacity Building

1. Strengthening, through the provision of technical assistance and training, of the institutional and administrative capacity of Eligible Municipalities to identify and address the needs of the local population living within the jurisdiction of such municipalities.

2. Provision of technical assistance and training to community organizations: (a) in the identification, formulation, planning, evaluation, financing, maintenance and execution of potential Community Subprojects; and (b) in participatory planning for the prioritization of their needs and the allocation of resources.

Part C: Strengthening of FONAPAZ

1. Strengthening, through the provision of technical assistance and training and the acquisition and utilization of goods, of the administrative and financial capacity of FONAPAZ, including the PCU, to monitor and coordinate the carrying out of the Project.

2. Carrying out of annual ex-post evaluations of Community Subprojects, which shall include an assessment of the Beneficiaries.

3. Provision of auditing services for purposes of carrying out audits under Section 4.01 of this Agreement.

4. (a) Preparation of a baseline data containing, inter alia, socio-economic and demographic information on the Beneficiaries; and (b) carrying out of a random survey of Community Subprojects, to measure the impact of the Project.

5. Carrying out of promotional campaigns to inform the community organizations with respect to the contents of the Project.

* * *

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
April 15, 2004	635,000
October 15, 2004	655,000
April 15, 2005	675,000
October 15, 2005	695,000
April 15, 2006	715,000
October 15, 2006	735,000
April 15, 2007	755,000
October 15, 2007	780,000
April 15, 2008	805,000
October 15, 2008	825,000
April 15, 2009	850,000
October 15, 2009	875,000
April 15, 2010	900,000
October 15, 2010	930,000
April 15, 2011	955,000
October 15, 2011	985,000
April 15, 20112	1,010,000
October 15, 2012	1,040,000
April 15, 2013	1,075,000
October 15, 2013	1,105,000
April 15, 2014	1,135,000
October 15, 2014	1,170,000
April 15, 2015	1,205,000
October 15, 2015	1,240,000
April 15, 2016	1,275,000
October 15, 2016	1,315,000
April 15, 2017	1,355,000
October 15, 2017	1,395,000
April 15, 2018	1,435,000
October 15, 2018	1,475,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Good 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 and September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: Procurement Procedures

1. Limited International Bidding

Vehicles and computer hardware and software equipment shall be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

(a) Goods (other than those referred to in paragraph 1 above and those to be procured under Community Subprojects) estimated to cost \$150,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods and works under Community Subprojects estimated to cost \$150,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) Procurement of goods and works under this Part shall be carried out using standard bidding documents acceptable to the Bank.

3. International or National Shopping

Goods (other than those referred to in paragraph 1 above and those to be procured under Community Subprojects) estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount of \$1,500,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, at the option of the Borrower, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Community Participation

Goods, works and technical services under Community Subprojects estimated to cost less than \$150,000 equivalent per contract which are procured as a package under the circumstances which fall under the considerations described in paragraph 3.15 of the Guidelines, may be procured: (a) up to an aggregate amount of \$11,000,000 equivalent, through national shopping in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines; or (b) when national shopping is not possible and up to an aggregate amount of \$8,000,000 equivalent through direct contracting of providers available in the area.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for 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 Guidelines. Procurement of all goods and works (including technical services, when appropriate) shall be undertaken in accordance with such 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: (i) each contract for goods to be awarded under Part B.1 of this Section; (ii) the first two contracts to be awarded under Part B.2 (a) of this Section each calendar year during Project implementation; and (ii) the first two contracts to be awarded under Part B.2 (b) of this Section each calendar year during Project implementation, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts to be awarded under Part B.3 of this Section each calendar year during Project implementation; and (ii) the first two contracts to be awarded under Part B.4 of this Section each calendar year during Project implementation, the following procedures shall apply:

- (i) prior to the selection of any supplier, contractor or provider, as the case may be, under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for the provision of technical assistance under Part C.2 of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for the provision of technical assistance under Community Subprojects and Parts B, C.1, C.5 of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for the provision of technical assistance under Community Subprojects and Parts B, C.1 and C.5 of the Project may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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 proposed 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 each contract for the employment of consulting firms under: (i) Parts B, C.1 and C.2 of the Project estimated to cost the equivalent of \$50,000 or more; and (ii) Parts C.3 and C.4 of the Project, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants under Community Subprojects and Parts B, C.1 and C.5 of the Project estimated to cost the equivalent of \$25,000 or more, 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.

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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods 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 equal to \$2,000,000 in respect of the Special Account for the Project to be withdrawn from the Loan Account and deposited into the Special Accounts 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 equal to \$1,000,000 until the aggregate amount of withdrawals from the Loan 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 an amount equal to \$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 Accounts;

- (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 Special Account 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 with respect to 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 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 Subproject Agreements

Each Subproject Agreement shall contain terms and conditions whereby:

1. The Borrower agrees:

(a) to finance up to 90% of the cost of each Community Subproject of which: (i) up to 15% shall be financed with counterpart funds; and (ii) 75% shall be financed with Loan proceeds;

(b) to inspect, by itself or through FONAPAZ or jointly with representatives of the Bank, if the Bank shall so request, the goods and works included in the respective Community Subproject, and any relevant records and documents;

(c) to take or cause to be taken all actions as provided in Section 3.09 of this Agreement;

(d) to procure, on behalf of the Beneficiary, the works, goods or services to be financed under a Community Subproject as provided in Section 3.02 of this Agreement in the following cases: (i) upon request of the Beneficiary; (ii) when goods and works are to be procured under the procedures set forth in Parts B.2 (b) of Section I of Schedule 4 to this Agreement; or (iii) when the results of the technical evaluation of the particular Community Subproject recommend it; and

(e) to suspend or terminate the right of the Beneficiary to benefit from the proceeds of the Loan upon failure by such Beneficiary to comply with any of its obligations under the corresponding Subproject Agreement.

2. The Beneficiary agrees:

(a) (i) to carry out and operate the respective Community Subproject with due diligence and efficiency and in conformity with sound administrative, technical, engineering, financial and environmental standards and in accordance with the provisions of the Orientation Manual; and (ii) to provide the necessary information to FONAPAZ to enable the Borrower to comply with its obligation as provided in Section 4.01 of this Agreement;

(b) (i) to procure the works, goods and services to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Agreement in

cases other than those referred to in paragraph 1 (d) above; and (ii) to use exclusively the works and goods in the carrying out of the respective Community Subproject;

(c) to finance at least 10% of the total cost of the corresponding Community Subproject, such financing to be made either: (i) in cash; (ii) in kind; (iii) through the provision of labor; or (iv) by means of any combination thereof;

(d) to take all such action as shall be necessary to acquire as and when needed all such land and rights in respect of land as shall be required for carrying out the Community Subproject and shall furnish to the Bank, promptly upon its request, evidence satisfactory to the Bank that such land and rights in respect of land are available for purposes related to the Community Subproject;

(e) to obtain when needed, prior to the carrying out of the corresponding Community Subproject, all permits, licenses and or rights (other than those referred to in paragraph (d) above) necessary to carry out, operate and maintain the Community Subproject;

(f) to take all actions on its part required to address any potential negative environmental impact identified in the environmental evaluation for the corresponding Community Subproject, or cause the contractors carrying out the works (through inclusion of appropriate mandatory provisions, acceptable to the Bank, in the bidding documents for such works) to take all necessary actions to address such impact, all in a manner satisfactory to the Bank; and

(g) not to: (i) assign or transfer, in whole or in part, any of its obligations under the Subproject Agreement; or (ii) sell, lease, transfer, assign, or otherwise dispose of any property or assets financed wholly or in part with the proceeds of the Loan.