

May 27, 2003

His Excellency
Mr. Alcides Jiménez
Minister of Finance,
Ministry of Finance
Chile 128 c/Palma
Asunción, Republic of Paraguay

Re: Republic of Paraguay – Loan Number 7109-PA
(Pilot Community Development Project)
First Amendment to the Loan Agreement

Dear Mr. Minister:

Please refer to the Loan Agreement (the “Loan Agreement”) for the above-captioned Project between the Republic of Paraguay (the “Borrower”) and the International Bank for Reconstruction and Development (the “Bank”), dated May 14, 2002.

Pursuant to your letter dated April 21, 2003, requesting the Bank to amend the Loan Agreement to include the United Nations Development Program as a procurement agent for the Project, we are pleased to inform you that we agree to amend the Loan Agreement as follows:

- (b) Section 1.02 of the Loan Agreement is hereby amended in its entirety to read as follows:

“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:

- (b) “Annual Action Plan” means any of the plans referred to in Section 3.04 (a) and/or (c) of this Agreement;

- (b) “BCP” means the Borrower’s Central Bank (*Banco Central del Paraguay*);

- (b) “Financial Monitoring Letter” means the letter of even date herewith from the Bank to the Borrower setting forth the guidelines for the preparation and submission of financial monitoring reports (as hereinafter defined);

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

- (b) “FY” means the Borrower’s fiscal year commencing on January 1 and ending on December 31;
- (b) “Guaraní or G\$” means the lawful currency of the Borrower;
- (b) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank setting forth the Project monitoring indicators;
- (b) “Model Forms” means the set of model draft agreements satisfactory to the Bank, including standard drafts of Subproject Agreements (as hereinafter defined) set forth in the Operational Manual (as hereinafter defined);
- (b) “Operational Manual” means the manual referred to in Section 3.03 (a) of this Agreement;
- (b) “Participating Organization” means a private entity vested with legal personality which has the capacity to carry out all or part of one or more Subprojects (as hereinafter defined) to be included in a given Annual Action Plan;
- (b) “PCU” means the unit referred to in Section 3.06 (a) of this Agreement;
- (b) “SAS” means the Borrower’s Social Action Secretariat (*Secretaría de Acción Social*), created by Decree Number 9235, dated June 8, 1995, or any successor thereto;
- (b) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;
- (b) “Subproject” means any of the projects referred to in Part A of the Project;
- (b) “Subproject Agreement” means any of the agreements referred to in Section 3.05 (a) (i) of this Agreement; and
- (b) “Subproject Grant” means each of the grants to be awarded by SAS to a Participating Organization under the relevant Subproject Agreement, for the execution of the relevant Subproject.
- (b) “UNDP” means the United Nations Development Program; and
- (b) “UNDP Agreement” means the agreement to be entered into between UNDP and the Borrower for assistance in the execution of the Project, referred to in Section 3.10 of this Agreement.
- (b) Section 3.01 of the Loan Agreement is hereby amended to read as follows:

“Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through SAS, with the assistance of the Participating Organizations and UNDP, with due diligence and efficiency and in conformity with appropriate administrative, agricultural,

cultural, educational, environmental, financial, managerial, social, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.”

- (b) Article III is hereby amended by adding a new Section 3.10 to read as follows:

“Section 3.10. (a) For purposes of carrying out the Project, the Borrower shall enter into an agreement with UNDP (the UNDP Agreement) at no cost to the Bank or the Borrower and under terms and conditions satisfactory to the Bank, whereby: (i) the Borrower will authorize UNDP to undertake, on behalf of the Borrower, and UNDP will so undertake, the procurement of goods and services under the Project in accordance with the procedures set forth or referred to in this Loan Agreement, and the issuance of bidding documents and requests for proposals prepared by the Borrower; (ii) the Borrower will authorize UNDP to undertake, on behalf of the Borrower, and UNDP will so undertake, the disbursement of grants for subprojects under the Project in accordance with the procedures set forth or referred to in this Loan Agreement; (iii) UNDP will undertake to provide the Borrower in a timely manner with whatever information the Borrower needs to comply with the Borrower’s obligations under Article IV of this Agreement pertaining to Project funds handled by UNDP; (iv) UNDP will undertake to keep separate records and accounts in respect of the procurement of goods and services referred to in paragraph (i) above; and (v) the Borrower will undertake to transfer to UNDP the counterpart funds as required to effect the payments for goods and services under the Project.

(b) The Borrower shall exercise its rights under the UNDP 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, terminate, waive or fail to enforce the UNDP Agreement or any provision thereof.

(c) In case of any conflict among the terms of any Subproject Agreement, the Operational Manual, the UNDP Agreement and those of this Agreement, the terms of this Agreement shall prevail.

- (b) Section 5.01 is hereby amended to read as follows:

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

(b) 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 Organization will be able to perform its obligations under the corresponding Subproject Agreement.

(b) UNDP shall have failed to comply with any of its obligations under the UNDP Agreement, provided however, that the provisions of this Section shall not apply if upon the occurrence of the event mentioned herein the Borrower establishes to the satisfaction of the Bank that: (i) such event will not materially and adversely affect the carrying out of the Project by the Borrower; or (ii) adequate arrangements have been made to enable the Borrower to continue the carrying out of the Project by the Borrower without the assistance of UNDP.

In all respects other than as set forth above, the provisions of the Loan Agreement shall continue to apply with full force and effect.

Please confirm your agreement to the foregoing amendments by signing and dating the two originals of this amendment letter and returning one fully signed original to us. The provisions set forth in this amendment letter will become effective, upon receipt by the Bank of: (a) one fully executed original of this amendment letter; and (b) evidence, satisfactory to the Bank, that the UNDP Agreement has been entered into by the parties thereto.

Very truly yours,

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

/s/ Axel van Trotsenburg
Axel van Trotsenburg
Country Director

Argentina, Chile, Paraguay and Uruguay Country Management Unit
Latin America and the Caribbean Region.

AGREED
REPUBLIC OF PARAGUAY

By: /s/Alcides Jiménez Q.

Name: Ing. Alcides Jiménez Q.

Ministro

Date: July 8, 2003

M:\PARAGUAY\PILOT COMMUNITY DEVELOPMENT PROJECT\FIRST AMENDMENT TO THE LOAN AGREEMENT.doc
WB76939
July 29, 2003 5:19 PM