

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7216-DO

Loan Agreement

(Financial Sector Technical Assistance Project)

between

DOMINICAN REPUBLIC

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated March 9, 2004

Public Disclosure Authorized

LOAN NUMBER 7216-DO

LOAN AGREEMENT

AGREEMENT, dated March 9, 2004, between the DOMINICAN REPUBLIC (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 (the Project), has requested the Bank to assist in the financing of the Project;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

(a) "Annual Action Plan" means any of the plans referred to in Section 3.05 (a) of this Agreement;

(b) "BCRD" means *Banco Central de la República Dominicana*, the Borrower's Central Bank;

(c) "FMR" means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

(d) "*Fomento de Hipotecas Aseguradas*" means a mortgage insurance fund established by the Borrower pursuant to law 5894 of the Borrower, dated May 12, 1962;

(e) "Implementation Agreement" means any of the agreements referred to in Section 3.06 (a) of this Agreement;

(f) "Implementing Agency" means the Borrower's Ministry of Finance;

(g) "Implementing Entity" means either BCRD, or SB (as hereinafter defined), or SS (as hereinafter defined), or SIV (as hereinafter defined), or SIPEN (as hereinafter defined), and "Implementing Entities" mean collectively, the plural thereof;

(h) "LMF" means *Ley Monetaria y Financiera*, law 183-021 of the Borrower, dated December 3, 2002, which established the legal framework for the Borrower's financial sector;

(i) "Operational Manual" means the manual referred to in Section 3.03 (b) of this Agreement;

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

(k) "SB" means *Superintendencia de Bancos de la República Dominicana*, the Borrower's Superintendency of Banks;

(l) "SIPEN" means *Superintendencia de Pensiones de la República Dominicana*, the Borrower's Pension Superintendency;

(m) "SIV" means *Superintendencia de Valores de la República Dominicana*, the Borrower's Securities Superintendency; and

(n) "SS" means *Superintendencia de Seguros de la República Dominicana*, the Borrower's Insurance Superintendency.

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 twelve million five hundred thousand Dollars (\$12,500,000), 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. 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 and to be financed out of the proceeds of the Loan and in

respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be December 31, 2008 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. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on April 15 and October 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.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount 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. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall:

- (i) cause BCRD, pursuant to the respective Implementation Agreement, to carry out Part A and Part F of the Project;
- (ii) cause SB, pursuant to the respective Implementation Agreement, to carry out Part B of the Project and coordinate with BCRD the carrying out of Part G and Part I of the Project;
- (iii) cause SIPEN, pursuant to the respective Implementation Agreement, to carry out Part E the Project;
- (iv) cause SS, pursuant to the respective Implementation Agreement, to carry out Part D of the Project;

- (v) cause SIV, pursuant to the respective Implementation Agreement, to carry out Part C of the Project;
- (vi) through the Ministry of Finance, carry out Part H of the Project; and
- (vii) cause BCRD, pursuant to the respective Implementation Agreement, in coordination with SB, to carry out Part G and Part I of the Project.

all with due diligence and efficiency and in conformity with appropriate financial, administrative, legal and technical practices, and shall, or shall cause the Implementing Entities to, provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods 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. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank may otherwise agree, the Borrower shall carry out, and shall cause the Project to be carried out, in accordance with the Operational Manual.

(b) The Borrower shall issue an operational manual, satisfactory to the Bank, containing, *inter alia*, specific provisions on detailed arrangements for the carrying out of the Project, including:

- (i) a model Implementation Agreement; and
- (ii) guidelines for the preparation of Annual Action Plans.

(c) If any provision of the Operational Manual is inconsistent with a provision of this Agreement, the provision of this Agreement shall prevail.

Section 3.04. (a) The Borrower shall operate and maintain, at all times during Project implementation, a Project coordination unit with a structure, functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of the PCU to coordinate, monitor and supervise the carrying out of the Project.

(b) The Borrower shall ensure that the PCU is, at all times during Project implementation, headed by a Project coordinator and assisted by adequate professional and administrative staff (including a procurement officer, a financial and administrative officer and one representative from each of the Implementing Entities and Implementing

Agency, as the case may be), in numbers and with experience and qualifications acceptable to the Bank, operating under terms of reference satisfactory to the Bank.

Section 3.05. The Borrower shall:

(a) not later than January 31 of each year of Project implementation, starting in year 2005, furnish to the Bank, for its approval, an annual action plan, each said plan to include, *inter alia*: (i) the Project activities to be carried out (through the Implementing Agency), or caused to be carried out (through the corresponding Implementing Entity), by the Borrower during the calendar year following the presentation of each said plan; and (ii) the procurement plan and disbursement plan for each of said Project activities;

(b) thereafter implement each said Annual Action Plan, or cause it to be implemented, in accordance with its terms; and

(c) carry out the Annual Action Plan for the year 2004, or cause it to be carried out, as approved by the Bank prior to the date of this Agreement.

Section 3.06. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall enter into separate inter institutional agreements, one with each of the corresponding Implementing Entities on terms and conditions satisfactory to the Bank, and based on the model set forth in the Operational Manual, said inter institutional agreements to include, *inter alia*, the obligation each Implementing Entity to, with respect to its corresponding Part (s) of the Project: (i) provide the necessary counterpart funds; (ii) assist the Borrower in the implementation of the corresponding Annual Action Plan and in complying with its obligation to the Bank under this Agreement; and (iii) follow the provisions of the Operational Manual.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under each Implementation 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 (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Implementation Agreement or any provision thereof.

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

Section 3.07. Without limitation to the provisions of Sections 9.01 and 9.07 of the General Conditions, the Borrower shall, not later than thirty days after the conclusion of each semester during the implementation of the Project, starting for the semester which begins on January and ends on July, 2004, 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 in carrying out the Project during the semester immediately preceding the date of presentation of such report.

Section 3.08. (a) Without limitation to the provisions of Sections 9.01 and 9.07 of the General Conditions, the Borrower shall, not later than March 31 of each year of Project implementation, starting in March 31, 2005, review jointly with the Bank the progress made in: (i) carrying out the Project; and (ii) achieving the objectives of the Project, based on the relevant report referred to in Section 3.07 of this Agreement.

(b) As part of the annual review to be held not later than March 31, 2006, the Borrower shall carry out with the Bank a Project implementation mid-term review of such scope as set forth in the Operational Manual.

Section 3.09. 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 3.10. Without limitation to the provisions of Section 3.01 above, the Borrower shall:

(a) make available an amount equivalent to two million ninety six thousand five hundred Dollars (\$2,096,500) as counterpart funds for the Project for each year during Project implementation; and

(b) to that effect, establish and thereafter maintain, until the completion of the Project, an account in BCRD: (i) with an initial deposit of one hundred thousand Dollars (\$100,000) equivalent; and (ii) with a maintained balance which shall be consistent with the counter part funds amounts of the forecasted FMR.

Section 3.11. (a) For the purposes of providing assistance to the Borrower in the administration of Project funds (including procurement agent services), the Borrower shall enter into an agreement with the United Nations Development Programme (UNDP) under terms and conditions satisfactory to the Bank (the UNDP Agreement), which agreement shall include, *inter alia*, UNDP's obligation to maintain, on behalf of the Borrower, records and accounts adequate to reflect the operations, resources and expenditures of the Project, in order to enable the Borrower to comply with its obligations under Sections 4.01 and 4.02 of this Agreement.

- (b) (i) the Borrower shall exercise its rights and carry out its obligations 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
- (ii) except as the Bank may otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the UNDP Agreement or any provision thereof.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause UNDP (pursuant to the UNDP Agreement) to establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower shall cause UNDP (pursuant to the UNDP Agreement) to:
 - (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 four (4) 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) 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 cause UNDP (pursuant to the UNDP Agreement) to:

- (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 3.07 of this Agreement, the Borrower shall cause UNDP (pursuant to the UNDP Agreement) to 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 quarter 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 quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

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) UNDP shall have failed to perform any of its obligations under the UNDP Agreement.

(b) LMF shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to carry out the Project.

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

(a) Any event specified in paragraph (b) of Section 5.01 of this Agreement shall occur.

(b) The event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) 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 Operational Manual has been issued and put into effect;

(b) that the PCU has been established and properly staffed as set forth in Section 3.4 (b) of this Agreement;

(c) the UNDP Agreement has been entered into by the parties thereto;

(d) the Bank has been furnished with documentary evidence, satisfactory to it, confirming the deposit of the funds referred to in Section 3.10 (b) (i) of this Agreement.

Section 6.02. The date June 7, 2004 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Technical Secretary of the Presidency 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:

Secretariado Técnico de la Presidencia
Palacio Nacional
Avenida México
Santo Domingo, República Dominicana

Facsimile:

(809) 695-8432

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 Santo Domingo, Dominican Republic, as of the day and year first above written.

DOMINICAN REPUBLIC

By /s/ Carlos Despradel

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marco Mantovanelli

Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	4,600,000	100% of foreign expenditures; for local expenditures please see paragraph 4 of this Schedule
(2) Consultants' services (other than for Part I of the Project) and fees for audits referred to in Section 4.01 (b) of this Agreement	5,600,000	85% of foreign expenditures; and 80% of local expenditures
(3) Consultants' services under Part I of the Project	1,550,000	85% of foreign expenditures; and 80% of local expenditures
(4) Training	625,000	85% of foreign expenditures; and 80% of local expenditures
(5) Front-end fee	125,000	Amount due under Section 2.04 of this Agreement
(6) Premia for Interest Rate Caps and Interest Rate Collars	-0-	Amount due under Section 2.09 (c) of this Agreement
TOTAL	<u>12,500,000</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 the reasonable cost of non-consultant expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including reasonable travel costs and per diem of trainees, rental of facilities and equipment, and training materials.

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 five hundred thousand Dollars (\$500,000), may be made in respect of Categories 2 and 4 set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures within twelve months prior to the date of this Agreement (but in no case prior to November 1, 2003); and (b) Category 3 unless the Bank has determined, after consultation with the Borrower, that the Borrower is undergoing a banking crisis of significant intensity.

4. The percentage of local expenditures for goods to be financed by the Bank shall be: (a) 100% in case of goods procured through the services of a tax-exempt procurement agent; or (b) 80% in case of all other goods.

5. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure (under such terms and conditions as the Bank shall specify by notice to the Borrower) for:

(a) goods under contracts which are not subject to prior review pursuant to Part D.2. of Section I of Schedule 4 to this Agreement;

(b) consulting firms under contracts costing less than \$350,000 equivalent;

(c) individual consultants under contracts costing less than \$100,000 equivalent; and

(d) training.

SCHEDULE 2

Description of the Project

The objective of the Project is to develop institutional capacity and improve the financial infrastructure and legal framework of the Borrower's financial sector to prevent future crises.

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: Strategy for BCRD Re-Capitalization and Improvement of Statistics

Provision of technical assistance, training and equipment to strengthen BCRD's institutional capacity, through:

1. Carrying out of an analysis of BCRD's balance sheet dynamics to assist in the design of a strategy to facilitate BCRD's re-capitalization.
2. Improvement of BCRD's statistics to bring them closer to international standards, including, classification of financial instruments, sectorization of the economy, monetary aggregates compilation and statistical treatment of banks in liquidation.

Part B: Strengthening Institutional Capacity of SB

Provision of technical assistance, training and equipment to strengthen SB's institutional capacity, including:

1. Enhancement of the IT auditing function, through: (a) carrying out of an assessment of technological risk and identification of malpractices in bank registration procedures; and (b) design and preparation of an IT systems evaluation manual.
2. Enhancement of external audits accountability by, *inter alia*, including, improving prudential regulations for banks' external auditors to make such regulations consistent with international best practice, (such regulations to address, *inter alia*, suitability of auditors, minimum procedures to be completed by the auditing firms, information available for supervisors, and a penalty regime for auditors that do not observe minimum standards).
3. Institutional strengthening of SB, through the design and implementation of an institutional development plan, including the design of a supervisory strategy, the reinforcement of SB's internal organization, and the design of a comprehensive human resources strategy.

4. Implementation of a risk-focused supervision strategy, through: (a) design of a capacity building program to carry out risk-oriented supervision in all the areas of the banking sector; and (b) revision of an on-site examination manual.

5. Completion and implementation of a SB off-site analysis manual, including: (a) incorporation of a component covering the analysis of non-bank financial institutions and stress testing; and (b) incorporation of procedures to ensure a smooth flow of basic information into SB's management information system.

Part C: Strengthening Institutional Capacity of SIV

Provision of technical assistance, training and equipment to strengthen SIV's institutional capacity, including, *inter alia*:

1. Design and implementation of a national strategy for securities market development and promotion.

2. Establishment of a central registry of market instruments and participants.

3. Drafting of an appropriate securities market regulatory framework and accompanying manuals.

4. Development of an on- and off-site surveillance system, including the development of a risk-based supervisory framework.

5. Development of a new IT strategy.

Part D: Strengthening Institutional Capacity of SS

Provision of technical assistance, training and equipment to strengthen SS's institutional capacity, including, *inter alia*:

1. Review and update of the existing legal and regulatory framework.

2. Design and implementation of a modern risk-based supervision system including procedures for off-site and on-site monitoring.

3. Design of an electronic transfer of information system for SS that permits the exchange of information with insurance companies.

4. Design and implementation of a training program on actuarial capacity to, *inter alia*, raise the general level of understanding of actuarial issues.

5. Design and implementation of a strategy to restructure SS's internal organization, including the implementation of a comprehensive human resources strategy.

Part E: Strengthening Institutional Capacity of SIPEN

Provision of technical assistance, training and equipment to strengthen SIPEN's institutional capacity, including, *inter alia*:

1. Design and implementation of a strategic plan for SIPEN's institutional development, including guidelines on a comprehensive human resources strategy.
2. Development of an appropriate technical and regulatory framework to incorporate provisions to regulate survivor and disability benefits.
3. Design and implementation of a transparent mechanism to advise SIPEN on appropriate investment policy regulations through the carrying out of studies on the interaction between pension fund growth and the development of capital market instruments.
4. Design an implementation of a training program for supervisory staff.
5. Creation of a database and production of periodic reports in coordination with other sector agencies to ensure timely reporting of key indicators to the public.

Part F: Payment and Securities Settlement Systems

Provision of technical assistance, training and equipment to assist in the design of a comprehensive reform for the Borrower's payment and securities settlement system, including the improvement of its legal and regulatory framework, through:

1. Adoption of a Real Time Gross Settlement System (RTGS).
2. Adoption of a modern automated check clearing system.
3. Review and update of the existing legal and regulatory framework and establishment of the payment system oversight function within BCRD.
4. Provision of support for the design and implementation phases of a payment system reform.

Part G: Regulatory Development of LMF

Drafting of the necessary regulations to effectively implement LMF including, *inter alia*, regulations on: (a) market and operational risk; (b) prudential norms; (c) external audit norms for financial institutions, including on disclosure of financial statements; (d) consolidated supervision training; (e) foreign exchange; (f) contingency

funds; (g) international reserves management; (h) savings and loans institutions; and (i) *Fomento de Hipotecas Aseguradas* insurance.

Part H: Debt Management and Fixed Income Markets

Provision of technical assistance, training and equipment to assist the Borrower with the design and implementation of a new debt management framework, including:

1. Re-organization of the Borrower's Ministry of Finance.
2. Establishment of a public credit department (*Crédito Público*) within the Borrower's Ministry Finance.
3. Design of a comprehensive registration system of payment obligations, including supplier credits in arrears.
4. Design and implementation of a debt management strategy and appropriate risk management systems in BCRD and *Crédito Público*.
5. Strengthening of the Borrower's fixed income markets.

Part I: Addressing Banking Crises

Provision of technical assistance to assist the Borrower to deal with banking crises.

Part J: Audits

Carrying out of Project audits.

* * *

The Project is expected to be completed by June 30, 2008.

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 April and October	
Beginning on April 15, 2009 through April 15, 2020	4.17%
On October 15, 2020	4.09%

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. Procurement of Goods

Part A: General

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

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$250,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

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

2. Shopping

Goods estimated to cost \$50,000 equivalent or less per contract may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Proprietary systems and related services, up to an aggregate amount not to exceed \$300,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: 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 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

With respect to each contract for goods to be awarded under: (a) Part B.1 of this Section; and (b) Part C.3 of this section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

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

2. Least-cost Selection

Services rendered by consulting firms under Part J of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Individual Consultants

Services rendered by individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every twelve (12) months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in

accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$350,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost less than the equivalent of \$350,000, the terms of reference of the consultants shall be furnished to the Bank for its prior review and approval.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$100,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(d) With respect to each contract for the employment of individual consultants estimated to cost less than the equivalent of \$100,000, the terms reference of the consultants shall be furnished to the Bank for its prior review and approval.

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.