

CONFORMED COPY

LOAN NUMBER 7477-PAN

Loan Agreement

(Water Supply and Sanitation in Low-Income Communities Project)

between

REPUBLIC OF PANAMA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 8, 2007

LOAN NUMBER 7477-PAN

LOAN AGREEMENT

Agreement dated November 8, 2007, between REPUBLIC OF PANAMA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty two million Dollars (\$32,000,000) as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one per cent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (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 the 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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08 Without limitation upon the provisions of paragraph (a) of Section 2.07 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 — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project through MINSA in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV —EFFECTIVENESS-TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:

- (a) the Borrower, through MINSAs, shall have: (i) selected, in accordance with the provisions of Section III.C of Schedule 2 to this Agreement and pursuant to terms of reference previously agreed with the Bank, an agent acceptable to the Bank, and thereafter; (ii) entered into an agreement for the administration of Loan proceeds (the Fiduciary Agency Agreement) with the agent finally retained, under terms and conditions satisfactory to the Bank;
 - (b) the Borrower, through MINSAs, shall have adopted and furnished to the Bank, the OM for the Project; and
 - (c) the Borrower, through MINSAs, shall have adopted and furnished to the Bank, the Procurement Plan for the Project.
- 4.02 Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on January 19, 2009.

ARTICLE V— REPRESENTATIVE; ADDRESSES

5.01. The Representative of the Borrower is its Minister of Economy and Finance.

5.02. The Borrower's Address is:

Ministerio de Economía y Finanzas
 Dirección de Crédito Público
 Vía España, Calle 52
 Edificio OGAWA, 4to Piso
 Panamá, República de Panamá
 Facsímile: (507) 507-7200

5.03. The Bank's Address is:

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)	1-202-477-6391

AGREED at Panama City, Panama, as of the day and year first above written.

REPUBLIC OF PANAMA

By /s/ Héctor E. Alexander H.
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jane Armitage
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to increase access to sustainable water supply and sanitation services in participating communities of the territory of the Borrower.

Part 1: Rural Water Supply, Sanitation and Hygiene

- 1.1. Carrying out of activities needed to ensure expanded coverage and quality of service to rural areas through:
 - (a) the provision of enhanced support to the establishment and/or operation and management of the Water Boards, promoting their implementation of selected delegated operation models;
 - (b) (i) the carrying out of studies and analyses of water sources at the national level to support preventive protection measures in relation thereto; and (ii) the subsequent design and implementation of adapted remedial measures and activities; and
 - (c) the provision of support for the establishment of water, sanitation and hygiene specialized units in MINSA regional directorates.
- 1.2.
 - (a) carrying out of physical investments and infrastructure in water and sanitation for selected rural communities of various provinces of the territory of the Borrower;
 - (b) carrying out of selected community-driven investments and infrastructure in water and sanitation in selected rural communities of various provinces of the territory of the Borrower through the provision of Grants to Beneficiary Communities for the preparation, implementation and supervision of Community Subprojects in integrated rural water supply and sanitation investments, therewith piloting new approaches and processes; and
 - (c) strengthening the implementing capacity of MINSA to provide assistance in the context of the implementation of the Community Subprojects.

Part 2: Urban Water Supply and Sanitation

- 2.1. The building of improved capacity in IDAAN for a more strategic planning and management of investments.

- 2.2. The provision of support for the design and implementation of institutionally and technically innovative ways to provide water and sanitation services to the populations of marginalized urban areas of the territory of the Borrower.
- 2.3. The elaboration of innovative management models for the carrying out, on a pilot basis, of water and sanitation physical and infrastructure investments in selected small towns of the territory of the Borrower, including in relation thereto, assisting in the establishment and/or strengthening of specialized water and sanitation service providers.

Part 3: Policy Development

- 3.1. Strengthening of coordination and cooperation among key actors in the sector, thereby contributing to building consensus on operational and institutional choices, plans and strategies, through, *inter alia*:
 - (a) the provision of support for the establishment and operationalization of an inter-institutional committee for water and sanitation matters;
 - (b) the preparation of a national strategic plan for water and sanitation;
 - (c) the design and carrying out of an IEC campaign on water and sanitation issues;
 - (d) the carrying out of various surveys, assessments and diagnostic work on water and sanitation services; and
 - (e) the building of relevant capacity for various staff of stakeholder institutions and for the media by way of study tours for staff and informational workshops about Project progress and survey results for the media.
- 3.2. Implementation of a nationwide hand washing campaign.
- 3.3. Enhancement of required information on investment needs, investment plans by various stakeholders and sector outcomes through the development of a sector information system.

Part 4: Support for Project Management

The provision of support for the administration of the Project to: (a) PCU, including in respect of monitoring and evaluation activities, and (b) MINSA and its regional offices.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall:
 - (a) Maintain in MINSAs, throughout Project implementation, the Project coordination unit (PCU) established by Ministerial Resolution N°01523, dated April 13 1994, with personnel: (i) adequate in numbers and with functions and resources at all times satisfactory to the Bank including a coordinator, a financial management specialist and a procurement specialist; and (ii) responsible for the effective administration and coordination of Parts 1 and 4 of the Project, notably the procurement, financial management, audit, reporting and monitoring and evaluation in relation thereto.
 - (b) Maintain in MINSAs, throughout Project implementation, a water and sanitation directorate with staff adequate in numbers and with functions and resources at all times satisfactory to the Bank to carry out the relevant orientation, coordination, assistance to, and supervision of all technical aspects related to the implementation of Parts 2 and 3 of the Project.
 - (c) Maintain, throughout Project implementation, the inter-institutional committee to be established by the Borrower under Part 3.1(a) of the Project with membership consisting, *inter alia*, of representatives of the relevant units in MINSAs, IDAAN and MEF, all as further set forth in the OM, to provide guidance and orientation in the implementation of the Project and address potential execution constraints in relation thereto.
 - (d) Ensure that, PCU, through MINSAs, submits Project annual operating plans and budgets to the Bank for its prior review and approval.

B. Implementation Documents

1. (a) The Borrower, through MINSAs, shall adopt, not later than the Effective Date, a Project operational manual satisfactory to the Bank, therein setting forth rules, methods, guidelines, standard documents and procedures for the carrying out of the Project, including the following:

- (i) (A) the detailed description of Project implementation activities, their sequencing and the prospective timetable and benchmarks in relation thereto; and (B) the detailed institutional arrangements in respect thereof;
 - (ii) the Project administrative, accounting, auditing, reporting, financial, procurement and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto;
 - (iii) the EMF, the RPF and the IPP for the Project;
 - (iv) the plan for the training and capacity building activities under the Project;
 - (vi) the plan for the monitoring and supervision of the Project, including all environmental, economic and social aspects in relation thereto; and
 - (vii) the performance indicators for the Project.
- (b) The Borrower shall, through MINSa, carry out the Project, and/or cause it to be carried out, in accordance with the OM.
2. In the event that any provision of the OM shall conflict with any one under this Agreement, the terms of this Agreement shall prevail.
3. The OM may only be amended from time to time with the Bank's prior written consent.

C. Other Implementation Arrangements

1. The Borrower shall, within 18 (eighteen) months of the Effective Date, adopt guidelines for the implementation of Community Subprojects, to include, *inter alia*, the following: (a) the criteria for the eligibility of Beneficiary Communities; (b) the selection, approval, implementation, monitoring and evaluation of the Community Subprojects; (c) the terms and conditions for the Grants, including the model forms for the Grant Agreements; and (d) the arrangements and conditions for the disbursement of funds under each Grant Agreement.
2. The Borrower shall, not later than 60 (sixty) days after the Effective Date, enter into a Memorandum of Understanding with IDAAN, pursuant to terms and conditions specified in the OM to ensure IDAAN's participation in selected activities of the Project.

3. Not later than 6 (six) months after the Effective Date, the Borrower shall, through MINSA, take appropriate steps, including the carrying out of an action plan agreed with the Bank for the strengthening of its fiduciary capacity in respect of financial administration of the Loan, to ensure that the administration of Loan proceeds reverts to the Borrower within 36 (thirty six) months thereof.
4. Without limitation to the provisions of paragraph 3 above, the Borrower shall cause MINSA to abide by all the terms and conditions of the Fiduciary Agency Agreement and effectively utilize the services of the fiduciary agent until the relevant date of the transfer of the administration of Loan proceeds to MINSA, as referred to in paragraph 3 of this Section.
5. The Borrower shall, under each budget proposal to its legislature for each year during Project implementation, make adequate arrangements to fund the operating costs and personnel charges of the PCU and MINSA's water and sanitation directorate, as set forth in the OM.

D. Subprojects

1. For purposes of Part 1.2 (b) of the Project, the Borrower shall, through MINSA, enter into an agreement, satisfactory to the Bank, with a Beneficiary Community, therein setting forth the respective obligations of the parties thereunder, with respect to the preparation and implementation of the Community Subproject.
2. The Borrower shall, through MINSA, make a Grant to a Beneficiary Community in accordance with eligibility criteria and procedures acceptable to the Bank as set forth in the OM and which shall include the following:
 - (a) Subject to the provisions of paragraph (c) (i) hereunder, the Grants shall be made on a non-reimbursable basis.
 - (b) The Grants shall be made to Beneficiary Communities for the preparation and carrying out of integrated rural water supply and sanitation investments.
 - (c) The Borrower shall, through MINSA, obtain rights adequate to protect its interests and those of the Bank, including the right to:
 - (i) suspend or terminate the right of any Beneficiary Community to use the proceeds of a Grant, or obtain a refund of all or any part of the amount of a Grant then withdrawn, upon the Beneficiary Community's failure to perform any of its obligations under the Grant Agreement; and
 - (ii) require each Beneficiary Community to:

- (A) carry out the relevant Community Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank , including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower;
 - (B) provide, promptly as needed, the resources required for the purpose;
 - (C) procure the goods, works and services to be financed out of the Grant in accordance with the provisions of this Agreement;
 - (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Community Subprojects and the achievement of their objectives;
 - (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Community Subproject; and (2) at the Bank's or the request of the Borrower, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank;
 - (F) enable the Borrower and the Bank to inspect the relevant Community Subproject and any relevant records and documents; and
 - (G) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.
3. The Borrower shall, through MINSA, exercise its rights under each Grant Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall

otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the Grant Agreements or any of their provisions.

E. Anti-Corruption

The Borrower, through MINSA, shall carry out the Project and shall ensure that the Project is carried out, including by Beneficiary Communities, in accordance with the provisions of the Anti-Corruption Guidelines.

F. Safeguards

The Borrower, through MINSA, shall carry out and shall ensure that Beneficiary Communities carry out the Community Subprojects in accordance with the EMF, the RPF and the IPP prepared for the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five days after the end of the period covered by such report.
2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than November 30, 2012.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain within MINSA, through MINSA's water and sanitation directorate and PCU, and shall cause to be maintained with Beneficiary Communities, a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report not later than forty five days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements and the financial statements for Beneficiary Communities audited in accordance with the provisions of Section

5.09 (b) of the General Conditions. Each audit of the Financial Statements of the Borrower and of the financial statements of the Beneficiary Communities shall cover the period of one fiscal year of the Borrower and one fiscal year of the Beneficiary Communities concerned. The audited Financial Statements of the Borrower and those of the Beneficiary Communities in respect of each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Non-consultant Services.** All goods, works and Non-consultant services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consultant Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and Non-consultant services shall be procured under contracts awarded on the basis of International Competitive Bidding and subject to the following special provisions:
 - (a) prior registration, obtaining a license or an authorization shall not be a requirement for any bidder to participate in bidding procedures;
 - (b) no bids shall be rejected, and no provisional awards shall be made at the time of bid opening;
 - (c) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

- (d) the invitation to bid shall not require mandatory attendance to a pre-bid meeting as a condition to bid.

2. **Other Methods of Procurement of Goods, Works and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and Non-consultant services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
<p>(a) National Competitive Bidding (NCB) subject to the following provisions:</p> <ul style="list-style-type: none"> (i) standard bidding documents for NCB, acceptable to the Bank, should be used; (ii) foreign bidders shall not be required to be registered with local authorities as a prerequisite for bidding; (iii) no bids of proposals shall be rejected, and no provisional awards shall be made at the time of bid opening; (iv) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; (v) the invitation to bid shall not require mandatory attendance to a pre-bid meeting as a condition to bid; and (vi) potential bidders shall be allowed adequate time to prepare bids which should not be less than 30 days, except for commodities and contracts for small goods and Non-consultant services.
<p>(b) Shopping, subject to the following provisions:</p> <ul style="list-style-type: none"> (i) foreign bidders shall not be required to be registered with local authorities as a prerequisite for submitting quotations; and (ii) a minimum of three quotations shall be obtained as a condition to award the contract.
<p>(c) Direct Contracting, subject to the Bank’s prior consent</p>
<p>(d) Community Participation for Part 1.2(b) of the Project, as further set forth in the OM.</p>

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Quality-Based Selection
(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Procedures for the Selection of Individual Consultants

3. **Special provisions.** All methods of procurement of consultants’ services shall be carried out subject to the following special provisions:
 - (a) foreign firms shall not be required to be registered with local authorities as a prerequisite for submitting proposals;
 - (b) foreign consultants shall not be required to furnish any certificate issued by a local authority about their legal capacity or tax status for the purposes of submitting a proposal; and
 - (c) foreign consultants shall not be required to submit their proposals in person.

D. Review by the Bank of Procurement Decisions

1. Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank:
 - (a) each contract for goods and/or Non-consultant services estimated to cost the equivalent of \$250,000 (two hundred fifty thousand Dollars) or more procured on the basis of International Competitive Bidding;
 - (b) each contract for works estimated to cost the equivalent of \$3,000,000 (three million Dollars) or more procured on the basis of International Competitive Bidding;

- (c) each contract for goods or Non-consultant services estimated to cost \$100,000 (one hundred thousand Dollars) or more, irrespective of the method it was procured under;
 - (d) each contract for works estimated to cost \$500,000 (five hundred thousand Dollars) or more, irrespective of the method it was procured under; and
 - (e) each contract for consultants' services estimated to cost the equivalent of \$50,000 (fifty thousand Dollars) or more.
2. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank may specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions) to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in USD)</u>	<u>Percentage of Expenditures to be financed (inclusive of Taxes)</u>
(1) Works and Non-consultant services:		
(a) for Part 1 of the Project	11,000,000	100%
(b) for Part 2 of the Project	7,000,000	100%
(2) Goods for Part 2 of the Project	2,300,000	100%

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in USD)</u>	<u>Percentage of Expenditures to be financed (inclusive of Taxes)</u>
(3) Consultant services:		
(a) for Part 1 of the Project	5,520,000	100%
(b) for Part 2 of the Project	1,690,000	100%
(c) for Part 3 of the Project	1,860,000	100%
(d) for Part 4 of the Project	260,000	100%
(4) Operating Costs for Part 4 of the Project	500,000	100%
(5) Training:		
(a) for Part 1 of the Project	170,000	100%
(b) for Part 2 of the Project	150,000	100%
(c) for Part 3 of the Project	50,000	100%
(6) Community Subprojects under Part 1.2 (b) of the Project	500,000	100%
(7) Unallocated	1,700,000	
TOTAL AMOUNT	<u>32,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee referred to in section 2.03 of this Agreement;
 - (b) for payments made prior to the date of this Agreement; and
 - (c) for payments made under Category (6) in the table of paragraph A.2 above until and unless: (i) Guidelines for the implementation of Community Subprojects shall have been adopted, satisfactory to the Bank, by MINSA, as referred to in section C.1 of Schedule 2 to this Agreement; and (ii) Grant Agreements, satisfactory to the Bank, for the carrying out of Community Subprojects and including adequate environmental mitigation measures in relation with their implementation, shall have been entered into between MINSA and Beneficiary Communities, all in accordance with the criteria, procedures, terms and conditions set forth in the OM.
2. The Closing Date is May 30, 2012.

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 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 15 and November 15	
Beginning November 15, 2011 Through May 15, 2021	4.38%
From November 15, 2021 Through November 15, 2026	1.06%
On May 15, 2027	0.74%

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such

date, such amounts repayable 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) Amounts of the Loan withdrawn 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, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (a) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (b) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Beneficiary Community” means a community in selected areas of the territory of the Borrower specified in the OM which is found eligible under the Project to receive a Grant for the carrying out of a Community Subproject.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Community Subproject” means specific community-level physical investments and infrastructure in water and sanitation made during the Project, on a pilot basis, by Beneficiary Communities utilizing the proceeds of Grants made under Part 1.2(b) of the Project.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “Environmental Management Framework” and “EMF” mean the framework of the Borrower for the management of social and environmental aspects of the Project dated April 24, 2007 and disclosed to the public on even date therewith, as may be amended from time to time with the prior approval of the Bank.
7. “Fiduciary Agency Agreement” means the agreement referred to in Section 4.01 (a) (ii) of this Agreement.
8. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007).
9. “Grant” means a non reimbursable transfer of resources proposed to be made out of the proceeds of the Loan to a Beneficiary Community under Part 1.2(b) of the Project, subject to the terms and conditions set forth in the OM and the relevant Grant Agreement between MINSa and the Beneficiary Community concerned.
10. “Grant Agreement” means an agreement between MINSa and a Beneficiary Community as referred to in Section I.D.1 of Schedule 2 to this Agreement.

11. “IDAAN” means *Instituto de Acueductos y Alcantarillados Nacionales*, the National Water and Sewer Agency of the Borrower.
12. “IEC” means Information Education Communication.
13. “IPP” means the Indigenous People’s Plan of the Borrower for the Project dated April 24, 2007 and disclosed to the public on even date therewith.
14. “MEF” means *Ministerio de Economía y Finanzas*, the Ministry of Economy and Finance of the Borrower.
15. “MINSA” means *Ministerio de Salud*, the Ministry of Health of the Borrower.
16. “Non-consultant services” means, in respect of paragraphs A, B and D of Section III and Category (1) in the table of Section IV.A.2 of Schedule 2 to this Agreement, services to be contracted for the carrying out of activities related to the organization and carrying out of workshops.
17. “OM” and “Operational Manual” mean a manual for Project implementation as referred to respectively in Section 4.01 (b) and Section I.B.1 (a) of Schedule 2 to this Agreement.
18. “Operating Costs” means in respect of Category (4) in the table of Section IV.A.2 of Schedule 2 to this Agreement, the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs and salaries of locally contracted employees.
19. “PCU” means the Project Coordination Unit referred to in Section I.A.1 of Schedule 2 to this Agreement.
20. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
21. “Procurement Plan” means the procurement plan of the Borrower for the Project to be adopted not later than the Effective Date as referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
22. “RPF” means Resettlement Policy Framework, the process framework of the Borrower for persons to be potentially displaced on account of Project

implementation dated April 24, 2007 and disclosed to the public on even date therewith.

23. “Training” means in respect of Category (5) in the table of Section IV.A.2 of Schedule 2 to this Agreement: (i) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under said section.
24. “Water Board” means a *Junta Administradora de Acueductos Rurales* to be established or strengthened under the Project, as governed by the provisions of the Ministry of Health's Executive Decree No. 40, issued pursuant to the Borrower's Sanitary Law (Codigo Sanitario), Articles 84, 85 and 88, dated April 18, 1994.