

CONFORMED COPY

LOAN NUMBER 7483-PAN

Loan Agreement

(Additional Loan for the Second Basic Education Project)

between

REPUBLIC OF PANAMA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT BANK**

Dated October 26, 2007

LOAN AGREEMENT

Agreement dated October 26, 2007, (the Agreement) entered into between REPUBLIC OF PANAMA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing a Loan (the Loan) to assist in financing the continuation of the activities related to the Original Project set forth in the Original Loan Agreement (all as defined in the Appendix to this Agreement). 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, the Appendix to this Agreement or the Original Loan 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 five million Dollars (\$5,000,000) 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment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 objectives of the Project as a continuation of the Original Project. To this end, the Borrower shall:
- (a) carry out Parts A.1, A.3, B and C of the Project through MEDUCA;
- (b) carry out Part A.4 of the Project through MEDUCA with the assistance of the Construction Implementing Entities; and
- (c) shall cause IFARHU to carry out Part A.2 of the Project,

all 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 — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely, that the agreement satisfactory to the Bank (the IFARHU Agreement), entered into between IFARHU and MEDUCA, acting on behalf of the Borrower, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of IFARHU to perform any of its obligations under the Project.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs in respect of any provision of the IFARHU Agreement and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Loan Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on February 4, 2008.

ARTICLE VI— REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Economy and Finance.
- 6.02. 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

6.03. 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:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF PANAMA

By /s/ Federico Humbert

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jane Armitage

Authorized Representative

SCHEDULE 1**Project Description**

The Project consists entirely of the Original Project which maintains as its objectives to: (a) improve the quality and efficiency of Basic Education in the territory of the Borrower and, in particular, to improve equity of access to Basic Education; (b) expand the coverage of Pre-school Education through community-based, non-formal education models; and (c) strengthen the planning, supervision and policy-making capacity of MEDUCA.

The Project consists of all the parts previously set forth in the Original Loan Agreement.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Borrower, through MEDUCA, shall maintain all the institutional arrangements set forth in the Original Project, including the operation of a Project coordination unit in MEDUCA, under the terms and conditions set forth in the Original Loan Agreement.

B. Implementation Agreements

1.
 - (a) The Borrower shall, through MEDUCA, continue to carry out and maintain, satisfactory to the Bank, all the terms and conditions of the IFARHU Agreement.
 - (b) The Borrower shall continue to exercise its rights under the IFARHU Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project. Except as the Bank shall otherwise agree, the Borrower shall not thenceforward assign, amend, abrogate, waive or fail to enforce the IFARHU Agreement or any of its provisions.
2.
 - (a) The Borrower shall maintain all the arrangements of the Original Project relating to the obligations of selected Construction Implementing Entities, acceptable to the Bank and those of MEDUCA, all as set forth in the relevant Construction Implementation Agreements.
 - (b) Notwithstanding the foregoing, for relevant new activities related to implementing the continuation of the Project under this Loan, the Borrower shall ensure that Construction Implementation Agreements acceptable to the Bank shall be entered into between MEDUCA and selected Construction Implementing Entities.
 - (c) The Borrower shall continue to exercise its rights under each Construction Implementation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project. Except as the Bank shall otherwise agree, the Borrower shall not thenceforward assign, amend, abrogate, waive or fail to enforce the Construction Implementation Agreements or any of their provisions.

3. The Borrower shall maintain, through MEDUCA, all arrangements pertaining to the operation of the PCU and the Project Management Committee, as are set forth in the Original Loan Agreement.

C. Implementation Documents

1. The Borrower has adopted, and shall comply with, throughout Project implementation, an operational manual dated February 16, 2002 and amended as of April 30, 2007, satisfactory to the Bank and consisting of different schedules setting forth, respectively, rules, methods, guidelines, specific development plans, standard documents and procedures to be maintained in use for the further carrying out of the Project.
2. In the event that any provision of the Operational Manual shall conflict with any one under this Agreement, the terms of this Agreement shall prevail.
3. The Operational Manual may only be amended from time to time in consultation with, and after approval of, the Bank.

D. Other Implementation Arrangements

1. The Borrower shall, through MEDUCA, each year during Project implementation, continue to furnish to the Bank under the terms and conditions specified for the Original Project, annual procurement audit reports in respect of the Loan.
2. The Borrower shall, through MEDUCA, under the terms and conditions specified for the Original Project, continue to provide evidence to the Bank that sufficient resources are allocated yearly in its draft budget law to cover the entire counterpart funding requirements of the Project for the year in question.

E. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

F. Safeguards

The Borrower, through MEDUCA, shall ensure that the provisions addressing indigenous peoples concerns in the implementation of the Project as set forth in the Operational Manual continue to be carried out as agreed with the Bank.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports**

1. The Borrower, through MEDUCA, shall monitor and evaluate the progress of the Project and prepare Project Reports as set forth in the Original Loan Agreement.
2. Notwithstanding the provisions of the Original Loan Agreement, for purposes of Section 5.08 (c) of the General Conditions, a single combined report on the execution of the Project under the Original Loan Agreement and under the Loan Agreement and all related plans required pursuant to that Section shall be furnished to the Bank not later than June 30, 2009.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall, through MEDUCA, maintain or cause to be maintained 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, through MEDUCA, prepare and furnish to the Bank as part of the Project Report not later than one month 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, through MEDUCA, have its Financial Statements for the Project audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for 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.

Procurement Methods
<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;

Procurement Methods
<p>(iii) no bids or proposals shall be rejected, and no provisional awards shall be made at the time of bid opening;</p> <p>(iv) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices;</p> <p>(v) the invitation to bid shall not require mandatory attendance to a pre-bid meeting as a condition to bid; and</p> <p>(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>
<p>(b) Shopping, subject to the following provisions:</p> <p>(i) foreign bidders shall not be required to be registered with local authorities as a prerequisite for submitting quotations; and</p> <p>(ii) a minimum of three quotations shall be obtained as a condition to award the contract.</p>
<p>(c) Direct Contracting, subject to the Bank’s prior written consent.</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.

Procurement Methods
(a) Quality-Based Selection
(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Selection based on the Consultants’ Qualifications
(e) Procedures for the Selection of Individual Consultants
(f) Single-Source Selection

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

The Procurement Plan shall set forth all contracts, including those which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of the Proceeds of the Financing

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 additional categories of Eligible Expenditures that may be financed out of the proceeds of the Loan:

<u>Category</u>	<u>Amount of the Loan (expressed in Dollars)</u>	<u>Percentage of Expenditures to be Financed</u>
(1) Works, goods, Non-Consultant Services, consultant services and Training for Part 1 of the Project (Improvement of Quality and Efficiency of Basic Education)	1,935,679	100%
(2) Works, Goods, Non-Consultant Services, Consultant Services and Training for Part 2: of the Project (Expansion of Non-Formal Pre-School Education Program)	2,317,009	100%
(3) (a) Goods, Non-Consultant Services, Consultant Services, Training for Part 3 of the Project (Institutional Strengthening)	534,790	100%
(b) Operating Costs for Part 3.3 of the Project (supervision, administration and audit of the Project)	212,522	100%
TOTAL	<u>5,000,000</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 2.04 of this Agreement; and
 - (b) for payments made prior to the date of this Agreement.
2. The Closing Date is December 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 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, 2009 through May 15, 2017	6.25%

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. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “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.
4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007).
5. “MEDUCA” means *Ministerio de Educación*, the Ministry of Education of the Borrower, formerly referred to as MIEDUC in the Original Loan Agreement.
6. “Non-Consultant Services” means, in respect of Categories (1), (2) and (3) of the table in Section IV.A.2 of Schedule 2 to this Loan Agreement, the services contracted in connection with the carrying out of activities related to the printing and production of educational and training materials.
7. “Operating Costs” means expenditures incurred by the Borrower in operational, maintenance (including maintenance of vehicles and PCU computer equipment), travel and per diem costs for PCU staff, and administrative costs (including employment of administrative PCU staff) that would not have been incurred absent the Project;
8. “Original Loan Agreement” means the loan agreement between the Borrower and the Bank, for a Second Basic Education Project, dated January 24, 2001, as amended to the date of this Agreement (Loan No. 7032-PAN).
9. “Original Project” means the Project first described in the Original Loan Agreement and set forth in Schedule 1 to this Agreement.
10. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.

11. “Procurement Plan” means the Borrower’s procurement plan for the Project, signed and dated July 03, 2007 and 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
12. “Training” means the expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including travel costs and per diem of trainees, study tours, rental of facilities and equipment, and training materials; but excluding consultant fees.