

**CONFORMED COPY**

**LOAN NUMBER 7877-PA**

# **Loan Agreement**

**(Panama Metro Water and Sanitation Improvement Project)**

**between**

**REPUBLIC OF PANAMÁ**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated December 16, 2010**

## **LOAN AGREEMENT**

Agreement dated December 16, 2010, between REPUBLIC OF PANAMÁ (“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 forty million Dollars (\$ 40,000,000), 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 percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 July 15 and January 15 in each year.

- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of 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 withdrawn and outstanding 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. To this end, the Borrower shall cause the Project to be carried out by IDAAN 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 Events of Suspension consist of the following:
- (a) IDAAN's Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of IDAAN to perform any of its obligations under this Agreement; and
  - (b) IDAAN shall have failed to comply with any of its obligations under the Subsidiary Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that the events specified in Section 4.01 of this Agreement shall have occurred and shall be continuing for a period of 60 days after notice of the events shall have been given by the Bank to the Borrower.

#### **ARTICLE V— EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Subsidiary Agreement shall have been executed on behalf of the Borrower and IDAAN;
  - (b) the Borrower shall have caused IDAAN to adopt the Operational Manual, satisfactory in form and substance to the Bank; and
  - (c) the Borrower shall have caused EPU to be established within IDAAN with key staff having qualifications, experience and terms of reference satisfactory to the Bank.
- 5.02. The Additional Legal Matters consist of the following.
- (a) The Subsidiary Agreement shall have been duly authorized or ratified by the Borrower and IDAAN and shall be legally binding upon the Borrower and IDAAN in accordance with its terms.
  - (b) The Operational Manual shall have been duly adopted by IDAAN on behalf of the Borrower in accordance with the applicable laws and regulations of the Borrower.
- 5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline shall be 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 shall expire on November 18, 2011.

**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  
Edificio Ogawa, 4 piso  
Vía España  
Apartado 0816-02886  
Panamá, República de Panamá

Telephone:

Facsimile:

(507) 507-7202  
(507) 507-7204

(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 address:

Telex:

Facsimile:

INTBAFRAD  
Washington, D.C.

248423(MCI) or  
64145(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 PANAMÁ**

**By /s/ Jaime E. Aleman Healy**  
**Authorized Representative**

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

**By /s/ Laura Frigenti**  
**Authorized Representative**

## SCHEDULE 1

### Project Description

The objective of the Project is to assist the Borrower in increasing the quality, coverage and efficiency of its water supply and sanitation services in the lower income neighborhoods of selected areas of PMR.

The Project consists of the following parts:

#### **Part 1: Improving Water Supply and Sanitation Services in Lower Income Neighborhoods**

Following the design of WSS solutions based on a participatory approach, the provision of support, including therein civil works and technical services, in relation to:

1. The development of a WSS master plan for selected areas of PMR, including all pertinent studies and assessments needed in that respect.
2. The underlying assessment for, researching about, and ensuing development of, a proposal for adapting IDAAN commercial practices and technical procedures to lower income areas and the carrying out of assessments and studies to determine constraints to lower income household sanitation connection rates.
3. The preparation of engineering designs and related bidding documents for the commissioning of works in accordance with the implementation strategy set forth in the WSS master plan.

#### **Part 2: Modernizing the WSS System in IDAAN's Colón Business Unit**

Improving the efficiency and quality of WSS services in IDAAN's business unit of *Colón* through the provision of support in relation to:

1. Increasing access to WSS infrastructure for about 7000 households in *Colón*.
2. Improving existing WSS systems and urban drainage through, *inter alia*: (a) the rehabilitation of the *Sabanitas* water treatment plant; (b) the carrying out of studies leading to the design of adequate hydraulic solutions that will subsequently allow the carrying out of works needed in respect of WSS system and urban drainage;(c) the development of a comprehensive master plan for integral sanitation and drainage systems.

3. *Enhancing commercial and operational efficiency*, including through, *inter alia*: (a) the carrying out of pertinent studies and the implementation of related works and acquisition of related goods to ensure a reduction in water losses; (b) the strengthening of all of IDAAN's commercial life cycle activities in order to increase revenue collection, including through *inter alia*, maintenance of an updated customer billing database, meter installation campaigns, billing process enhancement, development of strategies to secure customer payment and improvement in customer services and clientele satisfaction, including, in connection therewith, the modernization of selected IDAAN's facilities, workshops and customer service centers.
4. The management of water demand, through, *inter alia*, the carrying out of: (a) repair and retro-fitting of domiciliary installations; and (b) communication activities linked with demand management.
5. The design and subsequent implementation of IDAAN's *Colón* unit business communication strategy to raise customer awareness of IDAAN's social action policies.

**Part 3: Institutional Strengthening and Project Management, Monitoring and Evaluation**

Provision of support pertinent to ensure, *inter alia*, the carrying out of:

1. Institutional strengthening activities through, *inter alia*: (a) the establishment and operation of a monitoring and information system for monitoring and evaluation activities and sound data collection processes to feed information pertinent to IDAAN's decision making; (b) the building of capacity in sector operational best practices and management enhancement for selected IDAAN staff and management personnel.
2. Project management, monitoring, reporting, auditing and evaluation activities, including, *inter alia*, in respect of the implementation of IRF, IPPF and EMF and the provision of training and capacity building in relation to said activities.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

The Borrower shall cause IDAAN to:

1. assign responsibility internally for the overall implementation, coordination, monitoring and reporting of the Project among corporate departments, directorates, divisions, subdivisions, central or regional units described in detail in the OM, including, *inter alia*, its environment, planning, finance and procurement departments;
2. (a) maintain, throughout Project implementation, an external project unit (“EPU”):
  - (i) operating with structure, mandate and resources satisfactory at all times to the Bank;
  - (ii) entrusted with exclusive responsibility for ensuring the overall planning and coordination of the Project; and
  - (iii) headed by a Coordinator and staffed with a small dedicated team of professionals described in the OM, each having relevant and established expertise in carrying out, technically assisting in, and monitoring, the various Project implementation activities;
- (b) not later than six (6) months after the Effective Date, appoint under a renewable 2 year contract, a Technical Advisor selected in accordance with the provisions of Section III of Schedule 2 to this Agreement to provide technical assistance in relation to Project implementation, subject to the requirement that, within 6 months of the end of the 2 year contractual appointment mentioned above, an assessment of the technical capacity of EPU for further Project implementation shall be carried out jointly with the Bank, after which determination the transfer of the technical responsibility for Project implementation may thenceforward, as agreed with the Bank, be transferred exclusively to EPU; and

3. establish, not later than six (6) months after the Effective date, and thereafter maintain throughout Project implementation, the following Project governance compliance structures:
  - (a) a committee (“Steering Committee”) consisting of all IDAAN’s management to oversee Project implementation on a regular basis and provide overall guidance thereon, with the key responsibilities and purposes described in the Operational Manual, including, *inter alia*: (i) reviewing the performance of each implementing unit of IDAAN in discharging the implementation of the relevant part of the Project assigned to it; and (ii) deciding on strategic issues regarding Project implementation; and
  - (b) a committee (the “Inter-institutional\_Committee”) to serve as an inter-institutional coordination mechanism regarding the implementation of Part 1 of the Project, under the leadership of the Coordinator and with membership drawn from, *inter alia*, MEF and the Borrower’s ministry of health (“MINSA”); ministry of housing (“MIVI”); and ministry of public works (“MOP”), all as further set forth in detail in the OM.

**B. Subsidiary Agreement**

1. To facilitate IDAAN’s carrying out of the Project, the Borrower shall make the proceeds of the Loan available to IDAAN under a subsidiary agreement entered into between the Borrower and IDAAN (“the Subsidiary Agreement”), under terms and conditions approved by the Bank, among which, *inter alia*, the requirement that IDAAN shall comply with the terms of this Agreement, the OM, the Anti-corruption guidelines, the EMF, IRF and the IPPF for the Project (“Subsidiary Agreement”).
2. The Borrower shall exercise its rights and carry out its obligations under the Subsidiary 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 or waive the Subsidiary Agreement or any of its provisions.

**C. Implementation documents**

1. The Borrower shall cause IDAAN to adopt an operational manual (“OM”) for the Project, satisfactory in form and substance to the Bank, consisting of different schedules setting forth, respectively, rules, methods, guidelines, specific development plans, standard documents and procedures for the carrying out of the Project, including the following:

- (a) (i) the description of Project implementation activities, their sequencing and the prospective timetable and benchmarks in relation thereto; (ii) the qualification, experience, functions, responsibilities, structure of key staff of IDAAN, the composition of selected committees under the Project, all the institutional arrangements in respect thereof and the ensuing assignment of respective responsibilities for the Project activities, including, *inter alia*, the financing, reporting and auditing aspects thereof;
  - (b) (i) the Project administrative, financial, accounting, auditing, procurement and disbursement procedures, including all relevant standard documents and SDBs; and (ii) the procurement thresholds in respect of the procurement methods set forth in Section III of this Schedule and all associated reviews by the Bank under this Project;
  - (c) provisions to guide works under the Project (which shall include, *inter alia*, the Environmental Management Framework, the Indigenous Peoples Planning Framework and the Involuntary Resettlement Framework, provisions for erosion control, protection of cultural property under chance find, first aid instructions and restriction on the use of child labor);
  - (d) the overview of planned capacity building and training activities, including workshops and study tours, to be carried out for purposes of the Project;
  - (e) the final form of the interim unaudited financial reports and Financial Statements for the Project and the terms of reference for the financial audits of the Project;
  - (f) the plan for the monitoring, evaluation and supervision of the Project, including all technical, environmental, and social aspects in relation thereto; and
  - (g) the performance indicators for the Project.
2. The Borrower shall cause IDAAN to: (a) maintain the OM throughout Project implementation; (b) take all measures necessary to ensure that the Project is carried out in conformity with the OM; and (c) only amend the OM, from time to time, with the Bank's prior consent. Except as the Bank shall otherwise agree, the Borrower shall not, and shall cause IDAAN not to, (including not allowing any party to any contract entered into with IDAAN for purposes of this Loan), amend, abrogate, waive or fail to enforce the Operational Manual, including thereto attached, the EMF, the IPPF and the IRF or any respective provisions thereof.

3. In the event of a conflict between any provision of the Operational Manual and any one under this Agreement, the provisions of this Agreement shall prevail.

**D. Additional Implementation Arrangements**

1. The Borrower shall cause IDAAN to require that:
  - (a) all the procurement of works under the Project shall be carried out in accordance with the provisions of Section III of Schedule 2 of this Agreement, the Procurement Guidelines, and the Operational Manual;
  - (b) all contractors and consultants providing goods or carrying out works and services under the Project carry out their activities under the Project 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 EMF, IPPF and IRF and the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Borrower, and the applicable provisions of the Operational Manual;
  - (c) all bidding documents and contracts under the Project incorporate the environmental and social standards satisfactory to the Bank and provide the Borrower with selected intervention rights, including, *inter alia*: upon the contractor's or consultant's failure to perform any of its obligations under the applicable contract, the ability to: (i) suspend or terminate the right of any contractor or consultant to receive or use the proceeds of the Loan; or (ii) obtain a refund of all or any part of the amount of the Loan withdrawn as of then; and
  - (d) the terms of reference of any consultancy work that may be required during Project implementation in relation with the preparation of additional environmental and/or social studies or mitigation measures, actions and policies under the EMF, the IPPF and the IRF or any advice associated therewith and to be financed out of the proceeds of this Loan shall duly incorporate all pertinent and current Bank's operational safeguards requirements in each such respect.
2. The Borrower shall cause IDAAN to ensure that: (a) EPU submits annual Project work plans and budget to MEF and the Bank for their respective review and approval ; and (b) the implementation of the Project is subsequently carried out applying the views and recommendations of the Bank in that respect.

3. The Borrower shall, under each budget proposal to its legislature for the corresponding year during Project implementation, make adequate arrangements to assume, for that year, the counterpart portion of the costs related to the implementation of Part 2 of the Project to be financed out of the proceeds of the Loan in the proportion set forth in Category 2 of the table in Section IV.A.2 of Schedule 2 to this Agreement.

**E. Anti-Corruption**

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

**F. Safeguards**

The Borrower shall and shall cause IDAAN to comply with the provisions of the EMF, IPPF and IRF, including through the carrying out of the specific plans derived from such frameworks, and ensure that same obligations are appropriately upheld and shared under any pertinent contract further entered into for purposes of the Project.

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

**A. Project Reports**

1. The Borrower shall cause IDAAN to monitor and evaluate the progress of the Project and to 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 and set forth in the OM. 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 March 31, 2016.

**B. Financial Management, Financial Reports and Audits**

1. The Borrower shall cause IDAAN to maintain 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 cause IDAAN to 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 cause IDAAN to have the Project Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Project Financial Statements shall cover the period of one fiscal year of IDAAN. The audited Project 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 based on SBDs previously agreed with the Bank and subject to the following additional procedures which shall equally apply in respect of any procurement of goods, works and Non-consultant services carried out using NCB procedures mentioned in the next paragraph 2(a) below:
  - (a) foreign bidders shall not be required to be registered with local authorities as a prerequisite for bidding;
  - (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.

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding (NCB), subject to the additional procedures set forth in Section III B. 1 above.
(b) Shopping, subject to the additional procedures set forth in Section III B. 1 above and the additional requirement that a minimum of three quotations be obtained as a condition to award the contract.
(c) Direct Contracting, subject to the Bank's prior consent.

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.

<b><u>Procurement Method</u></b>
(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.** With respect to each method set forth in this Section III.C, the procurement of consultants' services shall be carried out subject to the following additional provisions, namely, that foreign consultants shall not be required to:
  - (a) furnish any certificate issued by a local authority about their legal capacity or tax status for the purposes of submitting a proposal; and
  - (b) submit their proposals in person.

**D. Review by the Bank of Procurement Decisions**

1. 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.
2. In case of conflict between the provisions of the Procurement Plan and the provisions of this Agreement, the provisions of this Agreement shall prevail.

**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.
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.

<b><u>Category</u></b>	<b><u>Amount of the Loan Allocated (expressed in USD)</u></b>	<b><u>Percentage of Expenditures to be financed (inclusive of Taxes)</u></b>
(1) expenditures under Part 1 of the Project for:  (a) Goods, works and Non-consultant services  (b) Consultant services	24,300,000  2,700,000	100%  100%
(2) expenditures under Part 2 of the Project for:  (a) Goods, works and Non-consultant services  (b) Consultant services  (c) Training and Operating costs	8,700,000  1,100,000  200,000	50%  50%  50%
(3) expenditures under Part 3 of the Project for:  (a) Goods, works and Non-consultant services  (b) Consultant services  (c) Training and Operating costs	1,300,000  900,000  800,000	100%  100%  100%
<b>TOTAL AMOUNT</b>	<b>40,000,000</b>	

**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; and
  - (b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$4,000,000 (four million Dollars) may be made for payments made prior to this date but on or after March 01, 2010 for Eligible Expenditures.
2. The Closing Date is September 30, 2015.

**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.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each July 15 and January 15 Beginning July 15, 2015 through January 15, 2028	3.71%
On July 15, 2028	3.54 %

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: (i) 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 (ii) 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. “Coordinator” means the person selected under the Project to carry out the coordination of activities to be financed under this Loan, as referred to in Section I.A.2 (a) (iii) of Schedule 2 to this Agreement.
4. “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.
5. “Environmental Management Framework” and “EMF” mean the framework of the Borrower for the management of social and environmental aspects of the Project dated March 03, 2010 and disclosed to the public on even date therewith, as may be amended from time to time only with the express prior consent of the Bank.
6. “EPU” means the External Project Unit, the Borrower’s unit established to manage externally funded Projects, as referred to in Section I.A.2 (a) of Schedule 2 to this Agreement.
7. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
8. “IDAAN” means *Instituto de Acueductos y Alcantarillados Nacionales*, the National Water and Sewer Agency of the Borrower, established by Law No. 2 of January 7, 1997 as amended to date, including through Law No. 77 of December 28, 2001 which reorganized it as an autonomous public entity with legal personality and patrimony.
9. “IDAAN’s Legislation” means for purposes of Section 4.01 of this Agreement Law No. 77 of the Borrower dated December 28, 2001.

10. “Inter-institutional Committee” means the committee referred to in section I.A.3 (b) of Schedule 2 to this Agreement.
11. “IPPF” means Indigenous Peoples Planning Framework, the document of the Borrower dated February 26, 2010 and disclosed to the public on even date therewith, which sets forth actions and measures to ensure that the collective identity of indigenous peoples does not constitute a barrier for accessing project benefits or contribute to any potential adverse impacts caused by the Project, as referred to in Section I.B.1. of Schedule 2 to this Agreement, and as may be amended from time to time only with the express prior consent of the Bank.
12. “IRF” means Involuntary Resettlement Framework, the process framework of the Borrower dated March 16, 2010\_ and disclosed to the public on even date therewith for the compensation and relocation of persons potentially displaced on account of Project implementation, as may be amended from time to time only with the express prior consent of the Bank.
13. “MEF” means *Ministerio de Economía y Finanzas*, the Ministry of Economy and Finance of the Borrower.
14. “Non-consultant services” means, in respect of Category 1, 2 and 3 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, inter alia, outreach and communication campaigns and the organization and carrying out of workshops not otherwise covered under Training.
15. “Operating Costs” means in respect of Categories 2 and 3 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.
16. “Operational Manual” and “OM” mean a manual for Project implementation as referred to in Section I.C.1 of Schedule 2 to this Agreement.
17. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
18. “Procurement Plan” means the Borrower’s procurement plan for the Project dated April 06, 2010 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.

19. “PMR” means the Borrower’s geographical subdivision of Panama Metropolitan Region, including therein specific low-income areas east of the Panamá Canal such as, *inter alia*, *Alcalde Díaz* and *Chilibre* in the districts of Panamá and *San Miguelito*, and including the city of *Colón*.
20. “SBD” means Standard Bidding Document, a document agreed with the Bank to be used for procurement related activities under the Project, as referred to in Section I.C.1 (b) of Schedule 2 to this Agreement.
21. “Steering Committee” means the committee referred to in section I.A.3 (a) of Schedule 2 to this Agreement.
22. “Technical Advisor” means a firm of consultants specialized in WSS systems selected and appointed under the Project to provide technical guidance for the implementation of the Project, as referred to in Section I.A.2 (b).
23. “Training” means in respect of Categories 2 and 3 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, including therein workshops and study tours in foreign countries; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under said section.
24. “Subsidiary Agreement” means the agreement referred to in Section I.B.1 of Schedule 2 to this Agreement pursuant to which the Borrower shall make the proceeds of the Loan available to IDAAN.
25. “WSS” means Water Supply and Sanitation.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Paragraph (1) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

... (1) *Ineligibility*. The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project

Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”