

CONFORMED COPY

LOAN NUMBER 7493-PAN

Loan Agreement

**(First Competitiveness and Public Financial Management
Development Policy Loan)**

between

REPUBLIC OF PANAMA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated February 13, 2008

LOAN AGREEMENT

Agreement dated February 13, 2008, entered into between REPUBLIC OF PANAMA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore 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 seventy five million Dollars (US\$75,000,000) (“Loan”), 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.
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead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 provisions of Schedule 2 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 consecutive withdrawals from the Loan Account which in the aggregate equal seventy five million Dollars (US\$75,000,000), shall be converted from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of the General Conditions and of the Conversion Guidelines.
- 2.09. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
 - (b) The Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program.
 - (c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program, including any action listed under Section I of Schedule 1 to this Agreement, in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.
- 4.02. The Additional Events of Acceleration consist of the following:

- (a) Any event specified in paragraph (c) of Section 4.01 of this Agreement occurs and is continuing for a period of 30 days after notice of the event has been given by the Bank to the Borrower.
- (b) Any event specified in paragraphs (a) or (b) of Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS;

- 5.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date (90) days after the date of this Agreement, but in no case later than the eighteen months after the Bank's approval of the Loan which expires on May 29, 2009.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

- 6.02. The Borrower's Address is:
Ministry of Economy and Finance
Edificio Ogawa, 4 piso
Vía España
Apartado 0816-02886
Panamá, República de Panamá

Telephone:

(507) 507-7202
(507) 506-7204

Facsimile:

(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:

INTBAFRAD
Washington, D.C.

Telex:

248423(MCI) or
64145(MCI)

Facsimile:

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/ Makhtar Diop

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions Taken Under the Program.

The actions taken by the Borrower under the Program include the following:

The Borrower has:

1. (a) (i) approved through its Parliament (*Asamblea Nacional*), on January 11, 2007, Law No. 5 (“*Que agiliza el proceso de apertura de empresas y establece otras disposiciones*”) which facilitates rapid on-line business registration through its “*Panamá Emprende*” internet portal (www.panamaemprende.gob.pa); (ii) promulgated Law No. 5 through an Act of its Executive Branch (*Órgano Ejecutivo Nacional*) dated July 11, 2007; (iii) caused Law No. 5 to be published in the Official Gazette (*Gaceta Oficial*) No.25,709 of January 12, 2007; and thereafter (iv) issued relevant implementing regulations thereto, through Executive Decree (*Decreto Ejecutivo*) No. 26, dated July 12th, 2007 and published in the Official Gazette No.25840 dated July 23, 2007; all as further required under its legal and constitutional framework and; (b) proceeded, in May 2006, to effectively launch its “*Panamá Tramita*” internet portal, thereby allowing completion, as of June 2007, of 83 on-line Government transactions, as attested to by letter from SPIG, dated October 05, 2007, setting forth the details of the relevant transactions;
2. Pursuant to Decree-Law No. 8 of the Borrower adopted on February 15th, 2006 (*Decreto Ley “Que reestructura el sistema de formación profesional, capacitación laboral y capacitación en gestión empresarial y dicta otras disposiciones”*) published in the Official Gazette (*Gaceta Oficial*) No. 25,491 dated February 22, 2006: (a) provided training services to about 145,000 workers, during the first 8 months of 2007 compared to 42,000 workers in all of 2006; (b) completed, as of September 30, 2007, the preliminary evaluations of about 105 training providers, both actions under (a) and (b) heretofore as evidenced by letter of INADEH No. DG 2991.07 dated October 8 2007, with relevant attachments thereto; and (c) caused its Ministry of Education to enter into a cooperation agreement with INADEH to help ensure better articulation between Panama’s vocational training and formal education systems, as per copy of the relevant agreement dated November 2, 2006;
3. (a) provided support through the financing of matching grant programs for enterprise innovation and R&D projects managed by SENACYT (“*Innovación Empresarial*” and “*Investigación y Desarrollo*” programs,) which grants totaled \$3.8 million in 2007, compared with, respectively: (i) \$1.2 million in 2006; (ii) \$0.7 million in 2005; and (iii) 0.18 million in 2004; as attested to by letter No.

2016 dated October 08, 2007 from SENACYT; and (b) increased to \$4.6 million in 2007, from respectively: (i) \$3.1 million in 2006 and; (ii) \$0.3 million in 2005, its budget for graduate scholarship programs managed jointly by SENACYT and IFARHU, (“*Programa Nacional de Investigadores*” and “*Excelencia Profesional*” programs), as set forth in SENACYT 2007 annual report of activities (“*Memoria Annual 2006-2007*”)

4. (a) adopted, through the DGI , as part of its modernization program, a new tax audit strategy; and (b) improved the systems to facilitate taxpayer compliance, as evidenced by the year-on-year increase in on-line filing of income tax declarations; all the above as set forth in a DGI report issued on October 2, 2007;
5. (a) caused the transfer, from CGR to MEF, in order to improve financial management governance, of all responsibility over the Borrower’s consolidated financial statements, as confirmed by copy of the Borrower’s consolidated financial statements for the first quarter of 2007 duly issued by MEF; and (b) improved the management of control transactions by CGR, specifically as relates to control of payments, through the launching and implementation of the SIGUEME tracking system, as evidenced by the webpage www.contraloria.gob.pa; and
6. caused the implementation of the modernized procurement framework, completed through the adoption of all relevant regulations to Borrower’s Procurement Law No. 22 of June 08, 2006, all as evidenced by the full publication on the webpage www.panamacompra.gob.pa. of procurement notices by all central governments and several decentralized entities.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section.
- B. Allocation of Loan Amounts.** The Loan shall be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

<u>Allocations</u>	Amount of the Loan Allocated (expressed in Dollars)
Single Tranche	75,000,000
TOTAL AMOUNT	75,000,000

- C. Payment of Front-end Fee.** No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.

- D. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank, opened at *Banco Nacional de Panamá*; and
 2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.
- E. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- F. Closing Date.** The Closing Date is June 30, 2008.

SCHEDULE 2

Amortization Schedule

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 May 15, 2010 through May 15, 2025	3.13 %
On November 15, 2025	2.97 %

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. “*Banco Nacional de Panamá*” means the national bank of the Borrower, acting as its payment agent for the Loan.

“CGR” means *Contraloría General de la República*, the office of the Comptroller of the Borrower.

“DGI” means *Dirección General de Ingresos*, the General Directorate of Revenue of MEF.

“Excluded Expenditure” means any expenditure:

- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
- (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
- (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.

“General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007) with the modifications set forth in Section II of this Appendix.

“IFARHU” means *Instituto para la Formación y Aprovechamiento de Recursos Humanos*, the Institute for Human Resources Development of the Borrower, established pursuant to Decree No.1, published in the Borrower’s Official Gazette of January 12, 1965.

“INADEH” means *Instituto Nacional de Formación Profesional y Capacitación para el Desarrollo Humano*, the National Training Institute of the Borrower established by decree No.8 of the Borrower dated February 15, 2006.

“MEF” means, depending on the context, either the Ministry of Economy or Finance of the Borrower or the Minister in charge thereof.

“Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter from the Borrower to the Bank dated October 16, 2007, declaring therein the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.

“R & D” means research and development.

“SENACYT” means *Secretaría Nacional de Ciencia, Tecnología e Innovación*, the Secretariat for Science, Technology and Innovation of the Borrower, established

through Law No.13 of the Borrower dated April 15 of 1997, as amended to date, including by Law 50 of the Borrower dated December 21 of 2005.

“SIGUEME” means *Sistema de Gestión y Manejo de Expedientes*, the document Tracking and Management System of CGR.

“Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

“SPIG” means *Secretaria de la Presidencia para la Innovación Gubernamental*, the Presidential Secretariat for Innovation of the Borrower.

Section II. Modifications to the General Conditions

The modifications to the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

7. 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 “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.