

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7685-PA

Loan Agreement

(Protecting the Poor under Global Uncertainty Development Policy Loan)

between

REPUBLIC OF PANAMÁ

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 2, 2009

Public Disclosure Authorized

LOAN NUMBER 7685-PA

LOAN AGREEMENT

Agreement dated June 2, 2009, entered into between REPUBLIC OF PANAMÁ (“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 eighty million Dollars (\$80,000,000), 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”).
- 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 percent (0.25%) of the Loan amount.
- 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower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 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 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 consecutive withdrawals from the Loan Account which in the aggregate equal eighty million Dollars (\$80,000,000) 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 5.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), 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, and further to Section 5.08 of the General Conditions:
- (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 promptly inform the Bank of any situation that 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.

ARTICLE V—TERMINATION

- 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 expire on October 21, 2010.

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:

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

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:

Telex:

Facsimile:

INTBAFRAD
 Washington, D.C.

248423(MCI) or
 64145(MCI)

1-202-477-6391

AGREED at the District of Columbia, U.S.A., as of the day and year first above written.

REPUBLIC OF PANAMÁ

By /s/ Federico Humbert

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Laura Frigenti

Authorized Representative

SCHEDULE 1**Program Actions; Availability of Loan Proceeds****Section I. Actions Under the Program**

- A.** The actions taken by the Borrower under the Program to mitigate the impact of the economic shocks on the poor of its territory include the following:
1. the issuance by MIDES of Resolution (*Resolución*) No. 160, dated July 08, 2008, which gives effect to an increase from B./35 to B./50 in the monthly monetary transfer made to beneficiary families of the CCT Program for the purpose of assisting extremely poor households cope with the increase in food prices and the adverse impact of the global economic downturn, as per copy of the relevant Resolution;
 2. the utilization by selected Borrower's governmental agencies of the household registry and management information system originally developed by MIDES for the Borrower's CCT Program to improve on the targeting of beneficiaries of other social programs of the Borrower, as attested to by letters from MIDES, dated February 17, 2009 and March 09, 2009, issued by the minister in charge and the vice minister in charge respectively;
 3. the adoption by MINSAs and SENAPLAN of a national plan for the fight against childhood malnutrition which includes, as part of the basic package of health services delivered in the Borrower's remote and poor areas, a nutrition component covering growth promotion and monitoring at the community level (*Atención Integral a la Niñez en la Comunidad or "AIN-C strategy"*), as per copy of said National Plan adopted by MINSAs and SENAPLAN in March 2008;
 4. the expansion by MINSAs of the geographical coverage of the health service package delivered in remote and poor areas of the Borrower's territory as set forth in the work program document signed on March 30, 2008 by the minister in charge of MINSAs; and
 5. in pursuance of the agreements reached and the objectives set for the protection of key social investment expenditures included in the Borrower's program document entitled "*Acuerdos de la Concertación Nacional*" dated October 29, 2007, the adoption, on February 25, 2008 and December 4, 2008 respectively, through Parliament (*Asamblea Nacional*), of:

- (a) Law No. 20 (*Ley “Que Aprueba el Mecanismo de Verificación y Seguimiento de los Acuerdos y las Metas de la Concertación Nacional para el Desarrollo”*), which establishes a national council for the national development dialogue, a social cabinet and a presidential secretary of goals; and
- (b) Budget Law No. 69 (*“Ley de Presupuesto General del Estado para la Vigencia Fiscal 2009”*), which records the resources appropriated for this purpose,

all as evidenced by the electronic publication of the legal acts in reference, effected through the Borrower's *Gaceta Oficial* digital editions No. 25986 of February 26, 2008 and No.26181 of December 10, 2008 respectively.

- B.** The actions taken by the Borrower under the Program to maintain the stability of its financial system include the following:
1.
 - (a) the adoption, through Decree-Law No.2 (*Decreto-Ley*) of the President of the Borrower, dated February 22, 2008, of selected amendments to Banking Law No. 9 of 1998 providing, *inter alia*, an extension of the regulatory and supervisory powers of the Borrower’s Superintendence of Banks to financial conglomerates and cooperatives and savings and loans associations; the introduction of new procedures for the reorganization and liquidation of troubled banks; and an improvement in the legal protection of the Borrower’s Superintendent of Banks and his staff while acting in their official capacity; and
 - (b) thereafter, in pursuance thereof, the issuance of regulations thereto through Executive Decree (*Decreto Ejecutivo*) No.52 of the Borrower’s Minister of Economy and Finance, dated April 30, 2008, all as per copy of the legal acts in reference electronically published through the Borrower’s *Gaceta Oficial* digital editions No. 25985 of February 25, 2008 and No. 26035 of May 08, 2008 respectively.
 2. The issuance by the Borrower’s Superintendence of Banks of Directive No. 002-2008 (*Acuerdo*) dated July 3, 2008, which institutes new general parameters for the evaluation of guarantees for the mitigation of credit risk, as per copy of the relevant Directive.
 3. The issuance by the Borrower’s Superintendence of Banks of Directive No. 004-2008 (*Acuerdo*), dated July 24, 2008 and Circular No. 047-2008, dated October 10, 2008, which together institute: (a) new

conditions regarding policies, procedures and control systems available to banks in the Borrower's territory for the management of their liquidity risk; and (b) new requirements for the banks to submit more detailed information regarding the structure of their liquidity positions, as per copy of the relevant Directive and Circular.

4. The issuance by the Borrower's Superintendence of Banks of Directive No. 005-2008 (*Acuerdo*) dated October 1, 2008, which establishes new provisions regarding capital standards for credit risk applicable to banks on a consolidated basis, as per copy of the relevant Directive.

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 and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan shall (except for amounts required to pay the Front-end Fee) 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	79,800,000
Front-end Fee	200,000
TOTAL AMOUNT	80,000,000

- C. 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; 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.

- D. 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.
- E. Closing Date.** The Closing Date is April 30, 2010.

SCHEDULE 2

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 May 15, 2011 Through May 15, 2028	2.78%
On November 15, 2028	2.70%

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. “B./” means Balboa, the Borrower’s lawful currency.
2. “CCT Program” means “*Red de Oportunidades*”, the Borrower’s Conditional Cash Transfer Program adopted in 2006 to improve standards of living and access to basic social services of the poorest households with children of the Borrower’s territory.
3. “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.
4. “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.
 5. “MIDES” means, *Ministerio de Desarrollo Social*, the Borrower’s Ministry of Social Development.
 6. “MINSA” means *Ministerio de Salud*, the Borrower’s Ministry of Health.
 7. “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 dated March 13, 2009, from the Borrower to the Bank, declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
 8. “SENAPLAN” means *Secretaría Nacional para el Plan Alimentario Nutricional*, the Borrower’s National Nutrition Secretariat.
 9. “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

Section II. Modifications to the General Conditions

The modifications to the General Conditions 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. Paragraph (a) of Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. *Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest*

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. 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.
5. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 4 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 4 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.”

7. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 4 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.”

8. 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 are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”