

CONFORMED COPY

LOAN NUMBER 7446-PAN

Loan Agreement

(Additional Loan for the Public Policy Reform Technical Assistance Project)

between

REPUBLIC OF PANAMA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated March 10, 2008

LOAN AGREEMENT

Agreement (the Loan Agreement) dated March 10, 2008, 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 Project which includes activities (the Activities) supplemental 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 for the Loan Agreement (as defined in the Appendix to this Agreement with the modifications thereof set forth in Section II of said Appendix), 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 for the Loan Agreement 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 six million Dollars (\$6,000,000) as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 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. In the event that the Borrower selects not to capitalize the Front-end Fee, 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 (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 June 15 and December 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08. Without limitation upon the provisions of paragraph (a) of Section 2.07 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall:
- (a) carry out Parts A.1, B.1, B.2 and D.1 of the Project through MEF;
- (b) cause CGR to carry out Parts A.2, A.3, and D.2 of the Project; and
- (c) cause DGCP to carry out Parts C.1, C.2, C.3 and D.3 of the Project;

all in accordance with the provisions of Article V of the General Conditions for the Loan Agreement; the CGR Project Agreement and the DGCP Project Agreement and each related applicable General Conditions thereunder. In the event that any provision of certain General Conditions heretofore referred to shall conflict with any provision of other General Conditions, the terms and conditions of the General Conditions applicable under each agreement shall prevail.

- 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) DGCP Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the DGCP to perform any of its obligations under the DGCP Project Agreement.
 - (b) CGR Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the CGR to perform any of its obligations under the CGR Project Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely that any event specified in paragraphs (a) or (b) of Section 4.01 of this Agreement occurs and is continuing for a period of ninety (90) days after notice of the event has been given by the Bank to the Borrower, unless the Borrower establishes, satisfactory to the Bank, that the CGR Project Agreement and the DGCP Project Agreement have been assigned or transferred to successor agencies satisfactory to the Bank.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Subsidiary Agreement has been executed between MEF and CGR, acting in their respective implementing capacities under this Agreement;
 - (b) the Implementation Memorandum has been executed between MEF and DGCP, acting in their respective implementing capacities under this Agreement; and

- (c) The Borrower has adopted an operational manual for the Project satisfactory to the Bank.
- 5.02. The Legal Matter consists of the following, namely that the CGR Subsidiary Agreement and the DGCP Implementation Memorandum have been duly authorized or ratified by the Borrower and are legally binding upon MEF, CGR and DGCP, as the case may be, in accordance with their terms.
- 5.03. Without prejudice to the provisions of the General Conditions for the Loan Agreement, the Effectiveness Deadline for all obligations accruing under any such agreement 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 November 10, 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
 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, 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/ Laura Frigenti

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to consolidate and deepen the Borrower's reforms to accelerate growth and reduce poverty by: (a) strengthening the Borrower's economic monitoring and planning, policy reform formulation and execution capacity; (b) improving the quality of poverty data and information on social expenditures aimed at increasing the efficiency and targeting of social programs; and (c) improving efficiency and transparency in public procurement.

The Project consists of the following parts:

Part A: Fiscal Sustainability and Public Sector Efficiency

- A.1. Strengthening the institutional capacity of the MEF Minister's Office (*Despacho Superior*) to enable it to: (a) provide technical advice on policies aimed at fostering economic growth and employment; and (b) improve fiscal reporting systems and documents in line with international practice.
- A.2. Assisting CGR in the formulation and subsequent implementation of a phased program to enable it to: (a) modernize fiscal control, accounting, auditing and financial accountability practices; and (b) develop and implement public fiscal management training programs.
- A.3. Strengthening the institutional and operational capacity of the census and statistics directorate of CGR to enable it to: (a) modernize its structure and functions; and (b) improve the methodologies it uses for calculating selected macroeconomic indicators.

Part B: Social Spending and Poverty Reduction

Assisting MEF in:

- B.1. Carrying out a third living standards measurement survey to update key indicators of poverty and living conditions.
- B.2. Designing and carrying out of assessment tools to evaluate the impact of the Borrower's poverty reduction efforts in selected programs of the Borrower.

Part C: Public Procurement System

- C.1. Assisting DGCP in the formulation and subsequent implementation of a phased program to enable it to: (a) develop standardized procurement procedures and documents of general application nationwide; (b) contribute to the development

and implementation of a new human resource strategy; (c) assess and adjust general procurement procedures; and (d) carry out training programs in the application of the Procurement Law.

- C.2. Refining the legal framework for the implementation of the Procurement Law through the elaboration of implementation regulations, procedures, methods and related standard procurement documents.
- C.3. Supporting improvements in the Borrower's electronic public procurement information system (*Panamá Compra*).

Part D: Project Management

- D.1. The provision of support to strengthen PIU in MEF and enable it to effectively coordinate, monitor and evaluate the implementation of Project activities.
- D.2. The provision of support to establish PEU in CGR and enable it to effectively coordinate, monitor and evaluate the implementation of Project activities.
- D.3. The provision of support to establish PEU in DGCP and enable it to effectively coordinate, monitor, and evaluate the implementation of Project activities.

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

1. The Borrower shall, for purposes of the Project, maintain within MEF throughout the implementation of the Project, a coordinating unit for the Project which shall:
 - (a) consist of staff appointed with terms of reference, functions and resources satisfactory to the Bank at all times during the implementation of the Project.
 - (b) be responsible, *inter alia*, for: (i) the coordination of all Project activities; and (ii) the procurement in respect of Parts A.1, B.1, B.2 and D.1 of the Project; and
 - (c) remain within the Public Policies Technical Unit of MEF and report periodically to the Minister in charge, as specified further in the OM.
2. The Borrower shall, not later than thirty (30) days after the Effective Date for the Loan Agreement, establish and thereafter maintain throughout Project implementation, a Steering Committee:
 - (a) responsible for, *inter alia*: (i) the Project progress oversight, orientation and coordination; (ii) addressing constraints in Project implementation; and (iii) approving annual operating plans for the Project; and
 - (b) chaired by the Minister of Economy and Finance and comprising representatives of MEF, CGR and DGCP, all as further set forth in the OM.

B. Subsidiary Agreement and Implementation Memorandum

1. To facilitate the carrying out by CGR of Parts A.2, A.3 and D.2 of the Project; and the carrying out by DGCP of Parts C.1, C.2, C.3 and D.3 of the Project, the Borrower shall make part of the proceeds of the Loan available respectively to CGR under a Subsidiary Agreement between the MEF and CGR and to DGCP under an Implementation Memorandum between DGCP and MEF, all under terms and conditions approved by the Bank, which shall include the following:

- (a) the requirement that CGR and DGCP shall be responsible for the execution of relevant parts of the Project and that they shall commit to execute them in accordance with the applicable relevant General Conditions, the OM and the pertinent provisions of this Agreement;
 - (b) the arrangements for the harmonization, rationalization and consolidation by MEF of all financial managements issues, audit and reporting for the Project; and
 - (c) the requirement that CGR and DGCP promptly inform MEF and the Bank of any condition which interferes with, or threatens to interfere with the performance of their respective obligations under the relevant Project Agreement.
2. The Borrower shall exercise its rights under the Subsidiary Agreement and the Implementation Memorandum 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 after prior consultations in connection therewith, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement and/or the Implementation Memorandum or any of their provisions.

C. Implementation Documents

1. (a) The Borrower shall, not later than the Effective Date, cause MEF, CGR and DGCP respectively, to adopt an operational manual satisfactory to the Bank to consist of different schedules setting forth, respectively, rules, methods, guidelines, specific development plans, standard documents and procedures for the carrying out of the relevant parts of the Project, including the following:
- (i) the operational strategy for Project implementation;
 - (ii) the detailed description of Project implementation activities, their sequencing and the prospective timetable and benchmarks in relation thereto;
 - (iii) the Project administrative, accounting, auditing, reporting, financial, procurement and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto;
 - (iv) the plan for the training and capacity building activities under the Project;

- (v) the plan for the monitoring, evaluation and supervision of the Project; and
 - (vi) the performance indicators for the relevant parts of the Project.
 - (b) The Borrower shall cause MEF, CGR and DGCP to carry out their respective parts of the Project in accordance with the OM.
2. In the event that any provision of the OM shall conflict with any one under this Agreement, the terms of this Agreement shall prevail.
 3. The OM may only be amended from time to time in consultation with, and after approval of, the Bank.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower, through MEF, shall monitor and evaluate the progress of the Project and prepare consolidated Project Reports for the Loan in accordance with the provisions of Section 5.08 of the General Conditions for the Loan Agreement and on the basis of indicators agreed with the Bank and set forth in the OM. Each Project Report for the Loan shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.
2. For purposes of Section 5.08 (c) of the General Conditions for the Loan Agreement, 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 June 30, 2010.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain in MEF and cause to be maintained in CGR and DGCP respectively, a financial management system in accordance with the provisions of Section 5.09 of the General Conditions for the Loan Agreement.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall through MEF: (a) prepare for Parts A.1, B.1, B.2 and D.1 of the Project, interim unaudited financial reports covering the quarter, in form and substance satisfactory to the Bank; and (b) furnish to the Bank not later than one month after the end of each calendar semester, as part of the Project Report for the Loan, the said unaudited financial reports for MEF together with the interim unaudited financial reports for CGR and DGCP respectively.

3. The Borrower shall, through MEF, have the Financial Statements for the Project, including the relevant parts of the Project implemented by MEF, CGR and DGCP respectively, audited in accordance with the provisions of Section 5.09 (b) of the General Conditions for the Loan Agreement. Each audit of the Financial Statements described heretofore shall cover the period of one fiscal year of the Borrower. The audited Financial Statements described heretofore 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 and Non-Consultant Services.** All Goods and Non-Consultant Services required for Parts A.1, B.1, B.2, and D.1 of 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 the Procurement Guidelines for the Loan as defined in this Agreement, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for Parts A.1, B.1, B.2, and D.1 of 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 the Consultant Guidelines for the Loan, as defined in this Agreement 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 for the Loan, or the Consultant Guidelines for the Loan, both as defined in this Agreement, as the case may be.

B. Particular Methods of Procurement of Goods and Non Consultant Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, Goods and Non-Consultant Services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures and subject to the following special provisions:
 - (a) prior registration, obtaining a license or an agreement 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 and Non-Consultant Services.

The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for Goods and Non-Consultant Services .The Procurement Plan shall specify the circumstances under which such methods may be used.

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

C. Particular Methods of Procurement of Consultants' Services

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

<u>Procurement Method</u>
(a) Quality-Based Selection
(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Selection based on Consultant's Qualifications
(e) Single Source Selection, subject to the Bank's prior written consent
(f) Procedures for the selection of Individual Consultants

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

D. Review by the Bank of Procurement Decisions

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 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 made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in USD)</u>	<u>Percentage of Eligible Expenditures to be Financed</u>
(1) Implementation by MEF of Parts A.1, B.1, B.2 and D.1 of the Project:		
(a) Goods and Non-Consultant Services.	700,000	100%
(b) Training.	80,000	100%
(c) Consultants’ services.	1,850,000	100%
(2) Implementation by CGR of Parts A.2, A.3 and D.2 of the Project:		
(a) Training.	240,000	100%
(b) Consultants’ services.	1,550,000	100%
(3) Implementation by DGCP of Parts C.1, C.2, C.3 and D.3 of the Project:		
(a) Training.	80,000	100%
(b) Consultants’ services.	1,200,000	100%
(4) Unallocated	300,000	
TOTAL AMOUNT	6,000,000	

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 in respect of the Loan, as referred to in Section 2.04 of the Loan Agreement;
 - (b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed five hundred thousand Dollars (\$500,000) equivalent may be made for payments made prior to this date but on or after April 12, 2007, for Eligible Expenditures under Category (3) in the table of Section IV of this Schedule;
 - (c) under Category (3) in the table of Section IV of this Schedule until a procurement specialist and a Project manager satisfactory to the Bank and selected in accordance with the provisions of Section III of this Schedule are appointed and maintained in DGCP throughout Project implementation with functions, terms of reference and resources satisfactory at all times to the Bank; and
 - (d) under Category (3) in the table of Section IV of this Schedule until the Borrower through MEF shall have: (i) selected, in accordance with the provisions of Section III.C of Schedule 2 to this Agreement and pursuant to terms of reference previously agreed with the Bank, an agent acceptable to the Bank, and thereafter; and (ii) following the carrying out of a financial management assessment thereof, shall have entered into, and abide by the terms of, an agreement for the administration of Loan proceeds allocated to the carrying out of Parts A.1, B.1, B.2 and D.1 of the Project (the Fiduciary Agency Agreement) with the agent finally retained, under terms and conditions satisfactory to the Bank.
2. The Closing Date is October 30, 2009.

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 June 15 and December 15	
Beginning June 15, 2009 through June 15, 2016	6.25%
On December 15, 2016	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. “Activities” means several specific new activities related to reinforcing capacity of selected entities of the Borrower in the context of the Loan, including *inter alia*, all aspects thereof related to: (a) the introduction, refining and dissemination of the new procurement law of the Borrower; and (b) the assessment of poverty in the territory of the Borrower and the impact thereon of related programs of the Borrower, all as set forth in Parts B.1, B.2 and C of the Project.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Loan Agreement.
3. “CGR” means *Contraloría General de la Republica*, the Borrower’s Office of the Comptroller.
4. “CGR Legislation” means Law No. 32 of the Borrower dated November 08, 1984, which establishes CGR as an independent entity discharging the duties of a general comptroller’s office over Borrower’s funds.
5. “CGR Project Agreement” means the agreement of even date herewith between CGR and the Bank.
6. “Consultant Guidelines for the Loan” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in January 1995 and revised in January and August 1996, September 1997, January 1999 and May 2004.
7. “DGCP” means *Dirección General de Contrataciones Públicas*, the entity of MEF responsible for public procurement of all public sector entities of the Borrower.
8. “DGCP Legislation” means Law No. 22 dated June 27, 2006 establishing such directorate as an independent entity subject to the supervision of CGR and the Borrower’s policies issued by MEF.
9. “DGCP Project Agreement” means the agreement of even date herewith between DGCP and the Bank.
10. “General Conditions for the Loan Agreement” means the “International Bank for Reconstruction and Development General Conditions for Loans dated July 1, 2005, with the modifications thereof set forth in Section II of this Appendix.

11. “Implementation Memorandum” means the agreement referred to in Section I.B of Schedule 2 to this Loan Agreement pursuant to which the Borrower shall make the proceeds of the Loan available to DGCP.
12. “MEF” means the Borrower’s Ministry of Economy and Finance.
13. “Non-Consultant Services” means in respect of Category (1) 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 set forth under part B.1 of the Project.
14. “OM” means the Operational Manual for the project referred to in Section I.C.1 (a) of Schedule 2 to this Agreement.
15. “Original Loan Agreement” means the Loan agreement for a Public Policy Reform Technical Assistance Project between the Borrower and the Bank, dated October 4, 2001, as amended to the date of this Agreement (Loan No. 4635-PAN).
16. “Original Project” means the Project described in the Original Loan Agreement.
17. “PEU” means an executing unit to be established and maintained in CGR and DGCP respectively for the implementation of specific parts of the Project.
18. “PIU” means the implementing unit to be maintained in MEF for the implementation of specific activities of the Project and the overall coordination thereof.
19. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997, January 1999 and May 2004.
20. “Procurement Law” means the law dated June 27, 2006 establishing new procurement rules for the carrying out of public investments by all public sector entities of the Borrower.
21. “Procurement Plan” means the procurement plan consisting of 3 schedules and adopted jointly by MEF, CGR and DGCP for the carrying out of their respective activities under the relevant parts of the Project, dated April 12, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines for the Loan, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

22. “Project” means the Original Project modified by the deletion of one component (Part A thereof) in the description of the Original Project set forth in Schedule 2 of the Original Loan Agreement and including selected Activities for reinforcing the focus of public policy reform on CGR and DGCP respectively.
23. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Loan Agreement pursuant to which the Borrower shall make the proceeds of the Loan available to CGR.
24. “Training” means in respect of Categories (1), (2) and (3) of the table in Section IV.A.2 of Schedule 2 to this Agreement, the expenditures other than for Consultants services incurred by the Borrower in connection with the carrying out of training activities under the Project, including reasonable travel costs and per diem of trainees, rental of facilities and equipment, and training materials.

Section II. Modifications to the General Conditions

For purposes of this Agreement, the modifications to the General Conditions for Loans of the Bank, dated July 1, 2005 are as follows:

- (a) Section 3.01 is amended by the deletion of subparagraph (a), to read in its entirety:

“Section 3.01. Front-end Fee. The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the “front-end Fee”).
- (b) Section 3.02 is modified by the addition of a new subparagraph (d) to read:

(d) “Notwithstanding the provisions of paragraph (a) of this Section, 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 Borrower shall pay the Default Interest Rate on such overdue amount in lieu of the interest rate specified in the Loan Agreement (or such other interest rate as may be applicable pursuant to Article IV as a result of a Conversion) until such overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the first day of each Default Interest Period and shall be payable semi-annually in arrears on each Payment Date.”