

Public Disclosure Authorized

OFFICIAL DOCUMENTS

LOAN NUMBER 8642-PA

Loan Agreement

(Second Programmatic Shared Prosperity Development Policy Financing)

between

REPUBLIC OF PANAMA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated NOVEMBER 15 , 2016

- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.08. (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prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.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.
- 2.09. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 3 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.

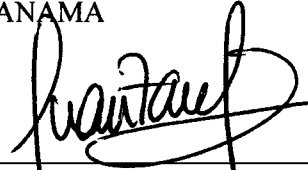
ARTICLE III — PROGRAM

- 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 Borrower's macroeconomic policy framework and 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.

AGREED at Panama city, Republic of Panama, as of the day and year first above written.

REPUBLIC OF PANAMA

By



Authorized Representative

Name:

Ivan Zarak

Title:

Acting Minister of Economy
and Finance

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By



Authorized Representative

Name:

ANABELA ABRU

Title:

COUNTRY MANAGER

8. The Borrower, through MEDUCA, has: (a) taken initial actions aimed at participating in the Program for International Student Assessment (PISA), through the issuance of an official notification to the OECD informing of its participation in the 2018 PISA, as evidenced by letters from MEDUCA to the OECD (DM-280-2015, dated February 3, 2015; DM-2561-2015, dated November 26, 2015, and DM-082-2016, dated January 11, 2016); and (b) completed and published the microdata of the 2013 Third Regional Comparative and Explanatory Study (TERCE).
9. The Borrower has: (a) established and regulated the implementation of the program “Panama Bilingüe”, as evidenced by the Borrower’s Executive Decree 148, dated April 1, 2016; and (b) approved the curricula for the new technical baccalaureates, which includes the development of non-cognitive skills, as evidenced by the Borrower’s Executive Decree 149, dated April 12, 2016.

Pillar 3: Enhancing the Regulatory and Financial Sustainability Framework of Service Delivery in the Energy and Water Sectors

10. The Borrower has reduced electricity tariff subsidies through the replacement of the nationwide Fund for Energy Compensation (FACE) with a geographically-targeted Fund for the Occidental Region (FTO), as evidenced by the Borrower’s Cabinet Resolutions No. 59 and No.60, both dated June 23, 2015 and Cabinet Resolution No.2, dated January 5, 2015.

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 is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in US Dollars)
(1)Single Withdrawal Tranche	300,000,000
TOTAL AMOUNT	300,000,000

- 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. Withdrawal Tranche Release Conditions.** No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by

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 on November 15, 2018 through November 15, 2022	1.33333%
On May 15, 2023 and on November 15, 2023	5 %
On each May 15 and November 15 beginning on May 15, 2024 through November 15, 2027	1.33333%
On May 15, 2028	0.66667%
On November 15, 2028	1.33333%
On May 15, 2029 and on November 15, 2029	1.66667%
On May 15, 2030 and on November 15, 2030	5%
On each May 15 and November 15 beginning on May 15, 2031 through May 15, 2036	4.33333%
On November 15, 2036	4.33342%

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.

APPENDIX

Section I. Definitions

1. “Common Reporting Standards” or “CRS” means the global standards for automatic exchange of financial account information in tax matters developed by the OECD which: (a) contain, *inter alia*, the reporting and due diligence rules and regulations on the exchange of information mentioned herein; and (b) enable countries which have adhered to the CRS to obtain financial account information in tax matters from their financial institutions and automatically exchange said information between or among them (as the case may be).
2. “Decentralization Law” means the Borrower’s Law No. 37 dated June 29, 2009 published in the Official Gazette which governs the systematic decentralization process of the public administration in the municipalities of the Borrower.
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

11. “MINSA” means *Ministerio de Salud*, the Borrower’s Ministry of Health.
12. “OECD” means Organization for Economic Co-operation and Development.
13. “*Panamá Bilingüe*” means the Borrower’s capacity building program aimed at implementing teaching and learning in English as a second language.
14. “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 June 17, 2106, 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.
15. “*Sistema de Gestión y Análisis de la Deuda*” or “SIGADE” means the Debt Management and Financial Analysis System, a program established by the United Nations Conference on Trade and Development (UNCTAD) to help governments to increase their debt management capacity.
16. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
17. “*Tercer Estudio Regional Comparativo y Explicativo*” or “TERCE” means the Third Regional Comparative and Explanatory Study, a large scale cross country study of learning achievements developed by the United Nations Educational, Scientific and Cultural Organization.
18. “Treasury Single Account” or “TSA” is an account that will unify all central government agencies bank accounts to better manage liquidity of public funds.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
3. 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.

Agreement for the purpose of Section 3.01(b).”

11. Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Eligible Expenditure”) is modified to read as follows:

“37. “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.”

12. Renumbered paragraph 44 (originally paragraph 43) of the Appendix (“Financial Statements”) is deleted in its entirety.

13. In paragraph 48 of the Appendix, the definition of “Front-end Fee” is modified by replacing the reference to Section 3.01 with Section 3.01 (a).

14. In paragraph 67 of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:

“67. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

15. In paragraph 72 of the Appendix, the definition of “Payment Date” is modified by deleting the word “is” and inserting the words “and Commitment Charge are” after the word “interest”.

16. The defined term “Project” in paragraph 75 of the Appendix 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”):

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