Loan Agreement

(Modernization of the Ministry of Finance Project)

between

REPUBLIC OF PARAGUAY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 21 2006
LOAN AGREEMENT

AGREEMENT, dated August 21, 2006, between REPUBLIC OF PARAGUAY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004) with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “BCP” means Banco Central del Paraguay, the Borrower’s central bank;

(b) “Eligible Categories” means Categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;
(c) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(d) “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(e) “MH” means Ministerio de Hacienda, the Borrower’s Ministry of Finance;

(f) “Operational Manual” means the manual referred to in Section 3.04 of this Agreement, as such manual may be amended from time to time with the agreement of the Bank;

(g) “PCU” means the unit referred to in Section 3.05 (a) (ii) of this Agreement;

(h) “Procurement Plan” means the Borrower’s procurement plan, dated February 24, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(i) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(j) “SIAF” means Sistema Integrado de Administración Financiera, the Borrower’s integrated financial management system established pursuant to the Borrower’s Law No. 1535/99 dated December 31, 1999 (Ley de Administración Financiera del Estado-Financial Administrative Law);

(k) “SIGADE” means Sistema de Gestión y Análisis de la Deuda, the Borrower’s system to manage and analyze its debt;

(l) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(m) “Steering Committee” means Comité de Dirección para el proceso de Reforma del Proyecto de Modernización del Ministerio de Hacienda, the committee to support MH’s modernization reform process established pursuant to MH’s Resolution No. 373 dated July 13, 2004; and
(n) “UTPC” means Unidad de Transparencia y Participación Ciudadana, the Transparency and Citizen Participation Unit established within MH.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to seven million five hundred thousand Dollars ($7,500,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at a rate of three fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.
Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (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 said 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 Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objective of the Project, and, to this end, shall carry out the Project, through MH, with due diligence and efficiency and in conformity with appropriate administrative, financial management, technical, social, civil service and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.
(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank’s approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan to ensure the continued achievement of the Project’s objective; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project in accordance with a manual (the Operational Manual), acceptable to the Bank, said manual to include, inter alia: (i) the Project’s chart of accounts and internal controls; (ii) the FMR formats; (iii) the terms of reference for carrying out the Project audits; (iv) the functions and responsibilities of the Steering Committee, the PCU and UTPC; (v) the Project indicators; and (vi) the Project disbursement and procurement procedures.

(b) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.05. (a) The Borrower shall: (i) operate and maintain, at all times during Project implementation: (A) the Steering Committee with a structure and with functions and responsibilities acceptable to the Bank, including, inter alia, the responsibility to oversee the carrying out of the Project; and (B) the UTPC with a structure, functions and responsibilities acceptable to the Bank, including, inter alia, the responsibility to monitor MH’s personnel’s behavior in the discharge of their functions; and (ii) operate and maintain, at all times during Project implementation, a Project coordination unit (the PCU) with a structure, functions and responsibilities acceptable to the Bank, including, inter alia, the responsibility of the PCU to assist the Borrower in Project implementation, monitoring and supervision.

(b) The Borrower shall ensure that: (i) the UTPC is at all times during Project implementation headed by a national director staffed with adequate professional and administrative personnel, all with qualifications and experience acceptable to the Bank; and (ii) the PCU: (A) is at all times during Project implementation headed by a national director staffed with adequate professional and administrative personnel, all with
qualifications and experience acceptable to the Bank; and (B) has hired a procurement advisor with qualifications and experience and on terms and conditions acceptable to the Bank.

Section 3.06. Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall: (a) not later than December 31 of each year of Project implementation (starting in the year 2006), prepare and furnish to the Bank an annual program, acceptable to the Bank (each such program to include, inter alia, a complete description of the Project activities to be carried out by the Borrower during the calendar year following the date of presentation of said program); and (b) immediately thereafter implement each corresponding program in accordance with its terms (including the annual program for the year 2006 referred to in Section 5.01 (b) of this Agreement).

Section 3.07. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Operational Manual, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and to furnish to the Bank, not later than forty five calendar days after the end of each calendar semester during Project implementation (starting with the report due for the second calendar semester of 2006), a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar semester preceding the date of presentation of said report in accordance with the pertinent annual program referred to in Section 3.06 of this Agreement, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the following calendar semester; and

(c) review with the Bank not later than April 30 of each year of Project implementation (starting in the year 2007), the pertinent reports referred to in paragraph (b) of this Section and, thereafter, take and/or cause to be taken, as the case may be, all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said reports and the Bank’s views on the matter.

Section 3.08. For purposes of carrying out of Part A.3 (a) (iv) of the Project, the Borrower shall, prior to the carrying out of said Part of the Project, enter into an arrangement with its legislative branch on terms and conditions acceptable to the Bank.
ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

(iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

(i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
(ii) enable the Bank’s representatives to examine such records; and

(ii) ensure that such reports or statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in Section 3.07 of this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Operational Manual has been approved by the Borrower;
(b) an annual program (acceptable to the Bank) for the calendar year 2006 as referred to in Section 3.06 (b) of this Agreement has been furnished to the Bank; and

(c) a procurement advisor has been hired by the Borrower as provided in Section 3.05 (b) (ii) (B) of this Agreement.

Section 5.02. The date October 5, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of MH is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
*(Ministerio de Hacienda)*  
Chile 128 casi Palma  
Asunción, Paraguay  
Facsimile: 595 (21) 448-283

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:  
Telex:  
Facsimile:

INTBAFRAD  
248423 (MCI) or (202) 477-6391  
Washington, D.C. 64145 (MCI)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Asunción, Paraguay, as of the day and year first above written.

REPUBLIC OF PARAGUAY

By/s/ Ernst Bergen
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By/s/ Axel van Trotsenburg
Authorized Representative
SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollars)</th>
<th>% of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>188,500</td>
<td>97%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>1,523,700</td>
<td>97%</td>
</tr>
<tr>
<td>(3) Consultants’ services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) provided by trainers; and</td>
<td>553,500</td>
<td>97%</td>
</tr>
<tr>
<td>)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) provided by other type of</td>
<td>3,238,000</td>
<td>97%</td>
</tr>
<tr>
<td>consultants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Project Audits</td>
<td>120,000</td>
<td>97%</td>
</tr>
<tr>
<td>(5) Training</td>
<td>1,376,300</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Front-end fee</td>
<td>37,500</td>
<td>Amount due under Section 2.04 of this Agreement</td>
</tr>
<tr>
<td>(7) Unallocated</td>
<td>462,500</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>7,500,000</td>
<td></td>
</tr>
</tbody>
</table>
2. For the purposes of this Schedule, the term “Training” means expenditures (other than those for consultants’ services) based on an annual budget previously approved by the Bank, incurred by the Borrower to finance reasonable transportation costs and per-diem of trainees and trainers (if applicable), training registration fees and rental of training facilities (including logistics arrangements of meetings/workshops/seminars for the provision of training) and training equipment under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods costing less than $250,000 equivalent per contract with the exception of the first two contracts to be procured under each procurement methodology referred to in Parts B.1 (a) and B.2 (a) (i) of Section II of Schedule 4 to this Agreement; (b) contracts for works costing less than $50,000 equivalent per contract with the exception of the first two contracts for works to be procured under the procurement methodology referred to in Part B.2 (a) (ii) of Section II of Schedule 4 to this Agreement; (c) contracts for services of individual consultants costing less than $50,000 equivalent per contract, with the exception of those contracts for services of individual consultants to be selected on a sole source basis; (d) contracts for services of consulting firms costing less than $100,000 equivalent per contract, with the exception of those contracts for consulting services provided by a firm selected on a sole source basis; and (e) contracts for Training under Category (5) as set forth in the table in paragraph 1 of this Schedule, with the exception of the first two contracts for the rental of training facilities and training equipment to be procured under Part B.2 (b) of Section II of Schedule 4 to this Agreement, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in BCP, on terms and conditions satisfactory to the Bank.
2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

   (a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

   (b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

   (c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what
procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.
Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of $500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

   (b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special
Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B

to

SCHEDULE 1

Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

The objective of the Project is to support the MH in its efforts to ensure fiscal sustainability and enhance the quality of public expenditures, through the strengthening of its core functions and responsibilities and the improvement of its internal administrative and financial management systems, so as to enable the MH to assist the Borrower in the reform of its public sector.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objective:

Part A: Improvement of Core Products

1. Economic and Fiscal Policy:

   Strengthening of MH’s: (a) economic and fiscal policy function, through, *inter alia*: (i) the improvement of its capacity to formulate basic statistics, fiscal discipline parameters and a medium term macro-economic framework; (ii) the preparation of a fiscal responsibility bill of law (acceptable to the Bank); and (iii) the strengthening of the coordination between the BCP and MH’s Statistics Directorate so as to jointly formulate reliable economic information; (b) medium-term fiscal planning capacity, through, *inter alia*, the carrying out of an assessment of MH’s role as the national economic leading agency within the Borrower’s executive branch, and thereafter, based on the recommendations of said assessment, the development of a proposal to improve MH’s efficiency and effectiveness in performing said role; and (c) capacity to negotiate trade and economic integration agreements.

2. Tax policy and Tax Administration:

   Design and implementation of tax policy and tax administration activities, which activities consist of, *inter alia*: (a) the digitalization of tax returns; (b) the improvement of the tax collection capacity of selected tax offices (as approved by the Bank); and (c) the strengthening of MH’s capacity to prepare management revenue reports and design policy options to generate non-tax revenues.
3. **Budget and Financial Management:**

   (a) Design and implementation of a budget program, which program consists of, *inter alia:* (i) the carrying out of a review of the regulatory framework governing the preparation and execution of the Borrower’s annual budget, and thereafter, based on the recommendations of said review, the development of a proposal to convert the current budget structure on a results-informed budget; (ii) the design and implementation of a pilot medium term program to monitor and evaluate the Borrower’s annual budget; (iii) the improvement of the current expenditure monitoring program, through the establishment of an expenditure monitoring system so as to provide up-to-date information concerning ongoing budget execution and effectively allocate resources to public social services; and (iv) the strengthening of MH’s relationship with the Borrower’s legislative branch budget offices so as to ensure access to the SIAF and to the information produced by MH in respect of budget formulation, execution and evaluation; and

   (b) design and implementation of a financial management program, which program consists of, *inter alia:* (i) the consolidation of the economic and fiscal information provided by existing information systems within MH (including the SIAF) so as to improve MH’s decision-making capacity; (ii) the design and implementation of a system which will integrate information concerning internal revenues and public expenditures; and (iii) the carrying out of an evaluation of the SIAF so as to, if needed, upgrade said system.

4. **Public Debt:**

   Design and implementation of a public debt management program, which program consists of, *inter alia,* the strengthening of MH’s public debt units to manage public debt, the upgrading of SIGADE, the development of forecasting debt models and the provision of training required therefor.

5. **Public Investment:**

   Design and implementation of a public investment program, which program consists of, *inter alia,* the strengthening of MH’s public investment office in order to improve its capacity to analyze and evaluate public investment project proposals, design multiyear public investment plans and monitor the execution of said projects.
Part B: Business Processes Reengineering and Information Management

1. Change Management:
   Design and implementation of a change management program, which program consists of, *inter alia*: (a) the strengthening of the Steering Committee to assist the MH in the carrying out of an institutional modernization reform; (b) the carrying out of an organizational climate survey within MH; (c) the design of an information program for MH’s institutional modernization reform, which program will, *inter alia*, identify the main stakeholders (including their expectations and priorities) in order to ensure the success and sustainability of said institutional modernization reform and inform MH’s personnel concerning the contents of said reform so as to create a sense of urgency and ensure ownership and sustainability of the reform by said personnel; and (d) if appropriate, the provision of training to MH’s personnel during the implementation of said institutional modernization reform.

2. Process Streamlining:
   Design and implementation of a streamlining program, which program consists of, *inter alia*, the carrying out of a review of MH’s core processes and procedures in respect of, *inter alia*, budget, accounting, treasury and human resources, and if needed, the reformulation of said processes and procedures in order to improve the effectiveness and efficiency of MH’s functions and responsibilities.

3. Information Management:
   Design and implementation of an information management program, which program consists of, *inter alia*: (a) the improvement of the information flows within MH to improve access and sharing of information; (b) the design of a policy on information technology; and (c) the development and establishment of an information technology governance model.

4. Human Resources Management Reform:
   Design and implementation of a human resources management program, which program consists of, *inter alia*: (a) if needed, the reformulation of those processes and procedures in the area of human resources management as referred to in Part B.2 above; (b) the development of guidelines and incentives to increase the hiring percentage of professionals within MH; (c) the development of internal regulations and guidelines to improve MH’s human resources management; (d) the development and implementation of payroll scales for administrative and professional personnel; (e) the upgrading of the current integrated human resources management information system; (f) the
strengthening of MH’s human resources administrative directorate; (g) the development of a link between the SIAF and the human resources management information system mentioned in (e) herein so as to improve the provision of information concerning civil service expenditures; and (h) the provision of training to MH’s personnel in the areas of budget, accounting and treasury.

5. Improve Internal Control and Auditing:

Design and implementation of an internal control and auditing program, which program consists of, inter alia, the strengthening of the internal control and auditing functions within MH, through the integration of an audit module within SIAF and the provision of training to MH’s internal auditors.

Part C: Transparency, Civil Society Participation and Communications

1. Transparency:

Design and implementation of a program to increase transparency within MH, which program consists of, inter alia: (a) the drafting and adoption of an ethics code, including the provision of training to MH’s personnel on the importance of compliance with the provisions of said code; (b) the development and implementation of an access to information policy; (c) the development and implementation of norms to standardize, regulate and facilitate access to information for the public in general; (d) the establishment and operation of a citizen’s information center (Centro de Atención al Ciudadano) which functions will be to register complaints from the public and monitor their internal status, provide guidance to the public with respect to access to MH’s services and support the MH and the UTPC in identifying recurrent complaints related to the provision of services; and (e) the design and implementation of an asset disclosure mechanism so as to ensure that all of MH’s personnel is in compliance with their asset disclosure obligations.

2. Civil Society Participation:

Design and implementation of a civil society program, which program consists of, inter alia: (a) the design and implementation of mechanisms for citizen monitoring and evaluation of MH’s activities; (b) the development, printing and distribution of educational materials and programs on individuals’ access of information with respect to MH’s services; and (c) the organization of public forums to discuss MH’s progress in undertaking actions to increase transparency, and immediately thereafter, based on the recommendations resulting from each forum, develop a proposal to implement said recommendations.
3. **Communications:**

Design and implementation of a communications program, which program consists of, *inter alia:* (a) the carrying out of a campaign to inform the Borrower’s civil servants and the public in general with respect to, *inter alia:* (i) the importance of fiscal discipline and performance monitoring, and the link between expenditures and outputs; (ii) the responsibility of civil servants to provide high quality service and the public’s right to receive it; (iii) the public’s duty to comply with their tax obligations; and (iv) the MH’s efforts to improve the quality of public expenditures; and (b) the carrying out of a tax campaign to increase tax collection and reduce tax evasion.

**Part D: Project Management**

1. Strengthening of the PCU to carry out its functions and responsibilities mentioned in Section 3.05 (a) (ii) of this Agreement.

2. Provision of technical assistance to the Borrower to enable it to comply with its annual audit obligation referred to in Section 4.01 (b) of this Agreement.

* * *

The Project is expected to be completed by December 31, 2008.
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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; and by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Installment Share (Expressed as a %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15</td>
<td>2.78%</td>
</tr>
<tr>
<td>Beginning April 15, 2010 through April 15, 2027</td>
<td></td>
</tr>
<tr>
<td>On October 15, 2027</td>
<td>2.70%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan shall not 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 as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such subparagraph 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (a) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (b) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. Without limitation to the provisions in paragraphs A and B of this Section, the following additional provisions shall also govern the procurement of goods, works and consultants’ services under the Project (as the case may be):

(a) a two-envelope bidding procedure shall not be allowed in respect of goods and works;

(b) bidders shall not be required to purchase the pertinent bidding documents in respect of goods, works and consultants’ services;

(c) pre-qualification shall not be allowed for the selection of consultants; and

(d) the Borrower shall follow national regulations with respect to record keeping and publication of procurement opportunities and contract awards in its procurement regulatory body web page (Sistema de Información de la Contratación Pública).

D. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.
Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding.
   (a) Goods estimated to cost less than $250,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding; and
   (b) procurement of goods shall be carried out using standard bidding documents acceptable to the Bank.

2. Shopping.
   (a) (i) Goods estimated to cost less than $25,000 equivalent per contract; and (ii) works estimated to cost less than $50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.
   (b) Rental of training facilities and training equipment shall be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods estimated to cost less than $30,000 equivalent per contract which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants’ Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $200,000 equivalent per contract may comprise entirely national consultants.
B. Other Procedures

1. Single Source Selection. Consultants’ services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank’s prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

2. Individual Consultants. Consultants’ services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for goods: (i) estimated to cost the equivalent of $250,000 or more procured on the basis of International Competitive Bidding; and (ii) procured on the basis of Direct Contracting; (b) the first two contracts for goods procured on the basis of National Competitive Bidding; (c) the first two contracts for goods, rental of training facilities and training equipment and works procured on the basis of Shopping procedures; (d) each contract for consultants’ services provided by a firm estimated to cost more than $100,000 equivalent; and (e) each contract for consultants’ services provided by a firm selected on a sole source basis. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for each contract for the employment of individual consultants estimated to cost the equivalent of $50,000 or more shall be subject to Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank.