

No. 6908

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
PANAMA**

**Guarantee Agreement—*Central Provinces Electrification Project* (with related letter, annexed Loan Regulations No. 4 and Loan Agreement between the Bank and the Instituto de Recursos Hidráulicos y Electrificación).
Signed at Washington, on 14 September 1962**

Official text: English.

*Registered by the International Bank for Reconstruction and Development on
18 September 1963.*

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
PANAMA**

✓ **Contrat de garantie — *Projet* relatif à l'électrification des provinces du centre (avec lettre connexe et, en annexe, le Règlement n° 4 sur les emprunts et le Contrat d'emprunt entre la Banque et l'Instituto de Recursos Hidráulicos y Electrificación). Signé à Washington, le 14 septembre 1962**

Texte officiel anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développement
le 18 septembre 1963.*

No. 6908. GUARANTEE AGREEMENT¹ (*CENTRAL PROVINCES ELECTRIFICATION PROJECT*) BETWEEN THE REPUBLIC OF PANAMA AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 14 SEPTEMBER 1962

AGREEMENT, dated September 14, 1962, between REPUBLIC OF PANAMA (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Instituto de Recursos Hidráulicos y Electrificación (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,² the Bank has agreed to make to the Borrower a loan in various currencies equivalent to four million dollars (\$4,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided ; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower ;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961³ (said Loan Regulations No. 4 being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Agreement contained, the Guarantor hereby unconditionally guaran-

¹ Came into force on 24 January 1963, upon notification by the Bank to the Government of Panama.

² See p. 164 of this volume.

tees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, and the punctual performance of all the covenants and agreements of the Borrower, all as set forth in the Loan Agreement and in the Bonds.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for carrying out the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

Article III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; or (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or of any of its political subdivisions or of any agency of the Guarantor or of any such political subdivision.

Section 3.02. (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Guarantor, such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor.

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and

the maintenance of the service thereof. The Guarantor shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes or fees imposed under the laws of the Guarantor or laws in effect in its territories ; provided, however, that the provisions of this Section shall not apply to taxation of, or fees upon, payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 3.04. This Agreement, the Loan Agreement and the Bonds shall be free from any taxes or fees that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories.

Section 3.06. The Guarantor shall take all such action within its power as will be necessary to enable the Borrower to obtain, and shall not take any action which would prevent the Borrower from obtaining, from time to time such adjustments in its rates as will provide (a) revenues sufficient to cover all operating expenses of its electric power facilities including adequate maintenance and depreciation and taxes ; and (b) a reasonable return on the average net fixed assets of electric power facilities in operation.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Bonds to be executed and delivered by the Borrower. The Minister of Finance and Treasury of the Guarantor and such person or persons as he shall designate in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12 (b) of the Loan Regulations.

Article V

Section 5.01. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Guarantor :

Ministro de Hacienda y Tesoro
Panamá
República de Panamá

Alternative address for cablegrams and radiograms :

Hacienda
Panamá, R.P.

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.
United States of America

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D.C.

Section 5.02. The Minister of Finance and Treasury of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Guarantee Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

Republic of Panama :

By A. G. ARANGO
Authorized Representative

International Bank for Reconstruction and Development :

By J. Burke KNAPP
Vice President

RELATED LETTER

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D.C.

September 14, 1962

Republic of Panama
Panama City
Panama

Gentlemen :

Re : *IRHE's Statutes*

With reference to Section 3.02 of the Guarantee Agreement (*Central Provinces Electrification Project*) of even date,¹ between us, and Section 5.07 of the Loan Agreement of even date² between Instituto de Recursos Hidráulicos y Electrificación (IRHE) and the Bank, we explained to you that we would have a continuing interest in IRHE's charter (*estatutos*) and in national legislation, decrees and resolutions affecting IRHE's charter or status operations.

It has, therefore, been agreed between us that, during the period of the Guarantee Agreement of even date between us you will : (a) consult with us before any modification in IRHE's charter is made ; and (b) inform us of any proposed amendments to national legislation, decrees and resolutions affecting IRHE's charter or status and operations.

Furthermore, with reference to the discussion we have had with you on methods of strengthening the management of IRHE, we wish to record our understanding that the Bank will be consulted before any change is made in the management of IRHE.

Please confirm your agreement with the foregoing by signing the form of confirmation on the enclosed copy of this letter and returning it to us.

Very truly yours,

International Bank for Reconstruction
and Development :

By Orvis A. SCHMIDT
Authorized Representative

Confirmed :

Republic of Panama :

By A. G. ARANGO
Authorized Representative

¹ See p. 154 of this volume.

² See p. 164 of this volume.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 4, DATED 15 FEBRUARY 1961

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO BORROWERS OTHER THAN
MEMBER GOVERNMENTS

[Not published herein. See *United Nations, Treaty Series, Vol. 400, p. 212.*]

LOAN AGREEMENT

(CENTRAL PROVINCES ELECTRIFICATION PROJECT)

AGREEMENT, dated September 14, 1962, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and INSTITUTO DE RECURSOS HIDRÁULICOS Y ELECTRIFICACIÓN (hereinafter called the Borrower).

Article I

LOAN REGULATIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961¹ (said Loan Regulations No. 4 being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to four million dollars (\$4,000,000).

Section 2.02. The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, the Loan Regulations.

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1 %) per annum on the principal amount of the Loan not so withdrawn from time to time.

Section 2.04. The Borrower shall pay interest at the rate of five and one half per cent ($5\frac{1}{2}$ %) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

¹ See above.

Section 2.05. Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ($\frac{1}{2}$ of 1 %) per annum on the principal amount of any such special commitments outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on January 1 and July 1 in each year.

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1¹ to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out the Project described in Schedule 2² to this Agreement. The specific goods to be financed out of the proceeds of the Loan and the methods and procedures for procurement of such goods shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

Section 3.02. The Borrower shall cause all goods financed out of the proceeds of the Loan to be imported into the territories of the Guarantor and there to be used exclusively in the carrying out of the Project.

Article IV

BONDS

Section 4.01. The Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations.

Section 4.02. The General Manager of the Borrower and such person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 6.12 (a) of the Loan Regulations.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall carry out the Project with due diligence and efficiency and in conformity with sound engineering and financial practices. In carrying out the Project the Borrower shall employ consulting engineers acceptable to the Bank upon terms and conditions satisfactory to the Bank.

¹ See p. 176 of this volume.

² See p. 178 of this volume.

(b) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans and specifications for the Project and any material modifications subsequently made therein, in such detail as the Bank shall from time to time request.

(c) The Borrower shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower; shall enable the Bank's representatives to inspect the Project, the goods and any relevant records and documents; and shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods, and the operations and financial condition of the Borrower.

Section 5.02. (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan.

(b) The Bank and the Borrower shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

Section 5.03. The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; or (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

Section 5.04. The Borrower shall pay or cause to be paid all taxes or fees, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement¹ or the Bonds, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of, or fees upon, payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

¹ See p. 154 of this volume.

Section 5.05. The Borrower shall pay or cause to be paid all taxes and fees, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement or the Bonds.

Section 5.06. (a) The Borrower shall insure or cause to be insured with responsible insurers all goods imported into the territories of the Guarantor and financed out of the proceeds of the Loan. Such insurance shall cover such marine, transit and other hazards incident to purchase and importation of the goods into the territories of the Guarantor and delivery thereof to the site of the Project, and shall be for such amounts, as shall be consistent with sound commercial practices. Such insurance shall be payable in dollars or in the currency in which the cost of the goods insured thereunder shall be payable.

(b) In addition, the Borrower shall take out and maintain, with responsible insurers, insurance against such risks and in such amounts as shall be consistent with sound public utility and business practices.

Section 5.07. (a) The Borrower shall at all times maintain its existence and right to carry on operations and shall, except as the Bank shall otherwise agree, take all steps necessary to maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

(b) The Borrower shall operate and maintain its plants, equipment and property, and from time to time make all necessary renewals and repairs thereof, all in accordance with sound engineering standards ; and shall at all times operate its plants and equipment and maintain its financial position in accordance with sound business and public utility practices.

(c) The Borrower shall operate its power activities separately from its other activities and shall maintain separate records for the assets, revenues and expenditures of its power activities. The Borrower shall not use the revenues or assets of its power activities for any other activity.

Section 5.08. Except as the Bank and the Borrower shall otherwise agree, (i) the Borrower shall not incur any debt for power activities other than for the Project until the Project is completed and in operation, and (ii) after the Project is in operation the Borrower shall not incur any debt for power activities unless its net revenue from power activities for the fiscal year next preceding such incurrence or for a later twelve-month period prior to such incurrence, whichever is the greater, shall be not less than 1.4 times the maximum debt service requirement for any succeeding fiscal year on all debt for power activities, including the debt to be incurred.

Furthermore, except as the Bank and the Borrower shall otherwise agree, the Borrower shall not incur any debt for its activities other than power activities unless the revenue from such activities, including funds which the Government has provided or is committed to provide, will be sufficient to cover as they come due : (i) operating expenses, including taxes, if any, relating to such activities and, (ii) all debt service payments (interest, amortization, sinking fund and other charges on debt) on debt incurred or to be incurred by the Borrower regarding such activities.

For the purposes of this Section :

(a) The term "debt" shall include the assumption and guarantee of debt and shall mean all indebtedness maturing by its terms more than one year after the date on which it is incurred.

(b) Debt shall be deemed to be incurred on the date of execution and delivery of a contract or loan agreement providing for such debt.

(c) The term "net revenues" shall mean revenues from all sources, adjusted to take account of power rates in effect at the time of the calculation even though they were not in effect during the fiscal year or twelve-month period to which such revenues relate, less all operating and administrative expenses, including provisions for taxes, if any, but before provision covering depreciation, interest and other charges on debt.

(d) The term "debt service requirement" shall mean the aggregate amount of amortization (including sinking fund payments, if any), interest and other charges on debt.

Section 5.09. The Borrower shall from time to time take all steps necessary or desirable to obtain such adjustments in its rates as will provide (a) revenues sufficient to cover all operating expenses of its electric power facilities, including adequate maintenance and depreciation and taxes ; and (b) a reasonable return on the average net fixed assets of electric power facilities in operation.

Article VI

REMEDIES OF THE BANK

Section 6.01. (i) If any event specified in paragraph (a), paragraph (b), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

Article VII

EFFECTIVE DATE ; TERMINATION

Section 7.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 9.01 (c) of the Loan Regulations : Arrangements satisfactory to the Bank shall have been made to provide the Borrower with such amounts of the currency of the Guarantor as shall be needed to complete the Project.

Section 7.02. A date 90 days after the date of this Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be June 30, 1967.

Section 8.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Borrower :

Instituto de Recursos Hidráulicos y Electrificación
Apartado 5285
Panama
Republic of Panama

Alternative address for cablegrams and radiograms :

Irhe
Panama, R.P.

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.
United States of America

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D.C.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

International Bank for Reconstruction and Development :

By J. Burke KNAPP
Vice President

Instituto de Recursos Hidráulicos y Electrificación :

By Juan Alberto MORALES
Authorized Representative

SCHEDULE 1

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
July 1, 1967	\$55,000	January 1, 1978	\$ 95,000
January 1, 1968	55,000	July 1, 1978	100,000
July 1, 1968	55,000	January 1, 1979	100,000
January 1, 1969	60,000	July 1, 1979	105,000
July 1, 1969	60,000	January 1, 1980	105,000
January 1, 1970	60,000	July 1, 1980	110,000
July 1, 1970	65,000	January 1, 1981	110,000
January 1, 1971	65,000	July 1, 1981	110,000
July 1, 1971	65,000	January 1, 1982	120,000
January 1, 1972	70,000	July 1, 1982	120,000
July 1, 1972	70,000	January 1, 1983	125,000
January 1, 1973	75,000	July 1, 1983	130,000
July 1, 1973	75,000	January 1, 1984	130,000
January 1, 1974	75,000	July 1, 1984	135,000
July 1, 1974	80,000	January 1, 1985	140,000
January 1, 1975	80,000	July 1, 1985	145,000
July 1, 1975	85,000	January 1, 1986	145,000
January 1, 1976	85,000	July 1, 1986	150,000
July 1, 1976	90,000	January 1, 1987	155,000
January 1, 1977	90,000	July 1, 1987	160,000
July 1, 1977	95,000		

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Sec-

tion 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	1/2 %
More than three years but not more than six years before maturity	1 %
More than six years but not more than eleven years before maturity . . .	1 1/2 %
More than eleven years but not more than sixteen years before maturity .	2 1/2 %
More than sixteen years but not more than twenty-one years before maturity	3 1/2 %
More than twenty-one years but not more than twenty-three years before maturity	4 1/2 %
More than twenty-three years before maturity	5 1/2 %

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project consists of stage one of the electrification plan for the territory served by the Borrower and includes the following :

A. *The Yeguada Hydroelectric Power Project*

A hydroelectric power plant will be constructed at Yeguada utilizing waters to be diverted from the San Juan River. Diversion facilities including tunnels will be sufficient to serve the future ultimate capacity of approximately 12,000 kw, and 4,000 kw of generating capacity will be installed.

B. *Construction of Additional Electric Power Transmission and Distribution Facilities*

The electric power transmission and distribution facilities of the Borrower will be amplified and extended by the construction and installation of approximately : 190 kilometers of high voltage transmission line (4.2 to 34.5 kv), 60 kilometers of low voltage distribution line, 4,100 kva of transformers, 3,000 customers service connections and 1,300 public lights.

C. *Installation of Electric Power Generating Diesel Units*

Two electric power generating diesel units of approximately 800 kw capacity each and several electric power generating diesel units of 25 to 60 kw will be installed at various points in the territory served by the Borrower.

D. *Rehabilitation of Existing Distribution Facilities and Electric Power Generating Diesel Units*

Approximately 60 kilometers of high voltage transmission lines and approximately 50 kilometers of low voltage distribution lines together with approximately 3,000 customers' service connections and about 20 electric power generating diesel units will be rehabilitated, and spare parts will be acquired.

LETTER RELATING TO THE LOAN AGREEMENT

REPÚBLICA DE PANAMÁ¹
INSTITUTO DE RECURSOS HIDRÁULICOS Y ELECTRIFICACIÓN

September 14, 1962

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington 25, D.C.

Gentlemen :

Re : *Rates*

We refer to Section 5.09 of the Loan Agreement of even date² between us. We understand that Section to mean that, unless the Bank otherwise agrees, the present level of average revenue (including Government payments for power) per kwh generated of firm electricity shall be maintained until the first stage of the Yeguada hydroelectric project is in commercial operation and that thereafter we shall take, from time to time, all steps necessary or desirable to obtain such adjustments in our rates as will be required to produce, during each fiscal year beginning January 1 of the year after the first stage of the Yeguada hydroelectric project is in commercial operation, a return on our investment of not less than 7 per cent, such percentage being based upon the relation between net income (as defined below), and average net fixed assets in operation (as defined below).

As used in this letter,

- (a) "Net income" shall mean electric power revenue from all sources, including Government payments for power, less all operating, administrative and overhead expenses chargeable to electric power operations, including taxes, if any, or payments in lieu of taxes, and provision for depreciation (in accordance with sound accounting practices), but without deduction of any amounts for interest ;
- (b) "Average net fixed assets in operation" shall mean the mean gross value of total fixed assets in electric power operation at the beginning and the end of each fiscal year less provision for depreciation (in accordance with sound accounting practices).

¹ Republic of Panama.

² See p. 164 of this volume.

Please confirm that you agree with the foregoing by signing the form of confirmation on the enclosed copy of this letter and returning it to us.

Very truly yours,

Instituto de Recursos Hidráulicos y Electrificación :

By Juan Alberto MORALES
Authorized Representative

Confirmed :

International Bank for Reconstruction
and Development :

By Orvis A. SCHMIDT
Authorized Representative
