

No. 10680

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

**Guarantee Agreement – *Second Power Project* (with annexed
General Conditions Applicable to Loan and Guarantee
Agreements and Loan Agreement between the Bank and
Instituto de Recursos Hidráulicos y Electrificación).
Signed at Washington on 16 March 1970**

Authentic text: English.

*Registered by the International Bank for Reconstruction and Development on
18 August 1970.*

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

**Contrat de garantie – *Deuxième projet relatif à l'énergie élec-
trique* (avec, en annexe, les Conditions générales appli-
cables aux contrats d'emprunt et de garantie et le Con-
trat d'emprunt entre la Banque et l'Instituto de Recur-
sos Hidráulicos y Electrificación). Signé à Washington
le 16 mars 1970**

Texte authentique : anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développement le
18 août 1970.*

GUARANTEE AGREEMENT¹

AGREEMENT, dated March 16, 1970, between REPUBLIC OF PANAMA (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by the Loan Agreement of even date herewith² between the Bank and Instituto de Recursos Hidráulicos y Electrificación (hereinafter called the Borrower) the Bank has agreed to make to the Borrower a loan in various currencies equivalent to forty-two million dollars (\$42,000,000), 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 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 the General Conditions Applicable to Loan and Guarantee Agreements of the Bank dated January 31, 1969,³ with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Loan and Guarantee Agreements being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Guarantee Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in Section 1.02 of the Loan Agreement have the respective meanings therein set forth.

¹ Came into force on 28 July 1970, upon notification by the Bank to the Government of Panama.

² See p. 88 of this volume.

³ *Ibid*

Article II

Section 2.01. Without limitation or restriction upon any of its other obligations under this Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan and the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds prior to their maturity and the punctual performance of all the obligations 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 the carrying out of 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; or (ii) any lien arising in the ordinary course of banking transactions to secure a debt maturing not more than one year after the date on which it is originally incurred.

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, including any institution performing the functions of a central bank.

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 Guarantor shall inform the Bank of any proposal to make permanent appointment of any person charged with the duties of Director General of the Borrower, and shall not proceed with such proposal without prior consultation with the Bank. The Bank shall make comments on such appointment with reasonable promptness.

Section 3.04. 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, and free from all restrictions, imposed under the laws of the Guarantor, provided, however, that the provisions of this Section shall not apply to taxation of 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 3.05. This Guarantee Agreement, the Loan Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Guarantor on or in connection with the execution, issue, delivery or registration thereof.

Section 3.06. (a) Except as the Bank shall otherwise agree, the Guarantor shall take all such action within its power as will be necessary or desirable, as permitted under the Electricity Legislation, 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 for the sale of electricity as will provide, beginning January 1, 1972, revenues sufficient to yield an annual rate of return on the average of the net value of fixed assets in

operation and on other rate base components listed in Article 42 of Decree-Law No. 31 of September 27, 1958, all as provided in the Electricity Legislation and shall not, until such rate of return has been achieved, permit the Borrower's rates in effect on the date of this Agreement to be reduced.

(b) For the purposes of this Section:

- (i) the term "average of the net value of fixed assets in operation" means: one-half of the sum of (A) the value of the Borrower's gross fixed assets in operation determined in accordance with methods of valuation and re-valuation acceptable to the Bank, less accumulated depreciation calculated on a straight-line basis at rates acceptable to the Bank at the beginning of the calendar year, plus (B) the value of the gross fixed assets in operation so determined less accumulated depreciation so calculated at the end of the year in question; provided, however, that when a major asset shall be brought into operation during the year, the value of such asset shall be included in the foregoing computation in respect of that part of the year during which such asset shall have been in operation;
- (ii) the term "revenues" means all revenues of the Borrower, including the proceeds of the special contribution, but excluding the subsidy, and shall be so defined in calculating the working capital;
- (iii) the term "subsidy" means the subsidy referred to in Article 7 (d) of Cabinet-Decree No. 235 dated July 30, 1969; and
- (iv) the term "special contribution" means the special contribution referred to in Article 7 (g) of Cabinet-Decree No. 235 dated July 30, 1969.

Section 3.07. For the purposes of the First Guarantee Agreement, Section 3.06 thereof shall be amended to read as in Section 3.06 of this Agreement provided, such amendment to become effective as of January 1, 1972.

Section 3.08. The Guarantor shall cause the Regulatory Commission to grant rate adjustments promptly as needed to the private and public electric entities in Panama so as to enable them to earn the rate of return specified in the Electricity Legislation.

Section 3.09. (a) Except as the Bank shall otherwise agree, the Guarantor covenants that it will not permit any cash distributions on the Borrower's equity capital to be made by way of dividend payments or otherwise.

(b) For the purposes of this Section, the term “equity capital” means all contributions made by the Guarantor up to the date of this Agreement plus contributions made or to be made under Article 7(e) of Cabinet-Decree No. 235 of July 30, 1969.

Section 3.10. The Guarantor shall cause the construction of the roads extending from Chepo to the Main Dam site to be completed in time for it to provide such connection with the access roads referred to in the first paragraph of Schedule 3 to the Loan Agreement as shall be necessary for the transportation of heavy equipment for use on the Project sites.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the General Conditions, its guarantee on the Bonds to be executed and delivered by the Borrower. The Minister of Finance and Treasury of the Guarantor and such other person or persons as he shall appoint in writing are designated as authorized representatives of the Guarantor for the purposes of Section 8.10 of the General Conditions.

Article V

Section 5.01. The Minister of Finance and Treasury of the Guarantor is designated as representative of the Guarantor for the purposes of Section 10.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 10.01 of the General Conditions:

For the Guarantor:

Ministro de Hacienda y Tesoro
Panamá
República de Panamá

Alternative address for cables:

Hacienda
Panamá, R.P.

For the Bank:

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

Alternative address for cables:

Intbafrad
Washington, D.C.

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 JOSÉ ANTONIO DE LA OSSA
Authorized Representative

International Bank for Reconstruction and Development:

By S. ALDEWERELD
Vice-President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
GENERAL CONDITIONS, DATED 31 JANUARY 1969
GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS
[*Not published herein. See United Nations, Treaty Series, vol. 691. p. 300.*]

LOAN AGREEMENT

AGREEMENT, dated March 16, 1970, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and INSTITUTO DE RECURSOS HIDRÁULICOS Y ELECTRIFICACIÓN (hereinafter called the Borrower).

Article I

GENERAL CONDITIONS; DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank dated January 31, 1969,¹ with the same force and effect as if they were fully set forth

¹ See above.

herein (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "First Loan Agreement" means the Loan Agreement (*Central Provinces Electrification Project*) dated September 14, 1962¹ between the Bank and the Borrower;

(b) "First Guarantee Agreement" means the Guarantee Agreement (*Central Provinces Electrification Project*) dated September 14, 1962;¹

(c) "Regulatory Commission" means the commission referred to in Decree-Law No. 31 of September 27, 1958 and as implemented by Cabinet-Decree No. 6 of January 16, 1969; and

(d) "Electricity Legislation" means Decree-Law No. 31 of September 27, 1958, Decree No. 535 of May 14, 1960, Cabinet-Decree No. 6 of January 16, 1969, and Cabinet-Decree No. 235 of July 30, 1969 as amended up to the Effective Date.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Loan Agreement set forth or referred to, an amount in various currencies equivalent to forty-two million dollars (\$42,000,000).

Section 2.02. (a) 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.

(b) 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, this Loan Agreement and in accordance with the allocation of the proceeds of the Loan set forth in Schedule 1 to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement between the Bank and the Borrower.

Section 2.03. The Borrower shall be entitled to withdraw from the Loan Account such amounts as shall have been paid (or, if the Bank shall so agree, shall be required to meet payments to be made) in respect of the reasonable cost of goods or services required for the Project and to be financed under this Loan Agreement.

¹ United Nations, *Treaty Series*, vol. 476, p. 153.

Section 2.04. 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 withdrawn from time to time.

Section 2.05. The Borrower shall pay interest at the rate of seven per cent (7%) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on May 1 and November 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 2 to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall apply the proceeds of the Loan in accordance with the provisions of this Loan Agreement to expenditures on the Project, described in Schedule 3 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, (i) the goods and services to be financed out of the proceeds of the Loan shall be procured on the basis of international competitive bidding in accordance with the *Guidelines for Procurement under World Bank Loans and IDA Credits*, published by the Bank in August 1969, and in accordance with such other procedures supplementary thereto as are set forth in Schedule 4 to this Agreement or as shall be agreed between the Bank and the Borrower, and (ii) contracts for the procurement of such goods and services shall be subject to the prior approval of the Bank.

Section 3.03. Except as the Bank may otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively in carrying out the Project.

Article IV

BONDS

Section 4.01. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VIII of the General Conditions.

Section 4.02. The Director General of the Borrower and such other person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 8.10 of the General Conditions.

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 administrative, financial, engineering and public utility practices.

(b) Except as the Bank shall otherwise agree, in carrying out Parts (1), (2), (3), (6) and (7) of the Project the Borrower shall employ qualified and experienced consultants and contractors acceptable to the Bank, to an extent and upon terms and conditions satisfactory to the Bank.

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

(d) The Borrower shall maintain records adequate to identify the goods and services 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.

(e) The Borrower shall enable the Bank's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, all other plans, works, projects, equipment and operations of the Borrower 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 services financed out of the proceeds of the Loan, and the administration, operations and financial condition of the Borrower.

(f) After the completion of the Project, the Borrower shall cause an inspection of the dams, waterways, earthworks and reservoir banks included in the Project to be carried out from time to time in a manner satisfactory to the Bank in order to determine whether there are any deficiencies or potential deficiencies in the condition of such structures and earthworks, or in the quality and adequacy of maintenance or methods of operation of such structures and earthworks which may endanger public safety.

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, the Bank and the Borrower shall from time to time, at the request of either party, exchange views through their representatives with regard to the performance by the Borrower of its obligations under this Loan Agreement, the administration, operations and financial condition of the Borrower and other matters relating to the purposes of the Loan.

(b) 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, the maintenance of the service thereof or the performance by the Borrower of its obligations under this Loan Agreement.

Section 5.03. The Borrower shall: (a) have its accounts and financial statements (balance sheet, statement of income and expenses and related statements) for each fiscal year audited, in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank; (b) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, (i) certified copies of its financial statements for such year as so audited and (ii) a signed copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (c) furnish to the Bank such other information concerning the accounts and financial statements of the Borrower and the audit thereof as the Bank shall from time to time reasonably request.

Section 5.04. 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 5.05. Subject to such exemptions as shall be conferred by the provisions of Section 3.04 and Section 3.05 of the Guarantee Agreement,¹ the Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor on, or in connection with, the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement 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, 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 5.06. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable on, or in connection with, the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement or the Bonds.

¹ See p. 78 of this volume.

Section 5.07. (a) The Borrower shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Bank for insurance against such risks and in such amounts as shall be consistent with sound public utility practices.

(b) Without limiting the generality of the foregoing, the Borrower undertakes to insure the imported goods to be financed out of the proceeds of the Loan against marine, transit and other hazards incident to acquisition, transportation and delivery thereof to the place of use or installation and for such insurance any indemnity shall be payable in a currency freely useable by the Borrower to replace or repair such goods.

Section 5.08. (a) The Borrower shall at all times maintain its existence and right to carry on operations and shall 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 carry on its operations, manage its affairs, maintain its financial position and plan the future expansion of its power activities, all in accordance with sound business and public utility practices, and under the supervision of qualified and experienced management.

Section 5.09. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not incur any debt, other than debt required to enable the Borrower to carry out the Project, unless its net revenue 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 (one and four-tenths) times the maximum debt service requirement for any succeeding fiscal year on all debt, including the debt to be incurred.

For the purposes of this Section:

- (a) the term “debt” means all debt maturing by its terms on demand or 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 loan contract or agreement providing for such debt;
- (c) the term “net revenues” means all revenues of the Borrower, including the special contribution, but excluding the subsidy, adjusted to take account of 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 provision for taxes, if any, but before provision covering depreciation, interest and other charges on debt;

- (d) the term “subsidy” means the subsidy referred to in Article 7 (d) of Cabinet-Decree No. 235 dated July 30, 1969;
- (e) the term “special contribution” means the special contribution referred to in Article 7 (g) of Cabinet-Decree No. 235 dated July 30, 1969;
- (f) the term “debt service requirement” means the aggregate amount of amortization (including sinking fund payments, if any), interest and other charges on debt;
- (g) whenever for the purposes of this Section it shall be necessary to value in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt.

Section 5.10. (a) Except as the Bank shall otherwise agree, the Borrower shall from time to time take all steps necessary or desirable, as permitted under the Electricity Legislation, to obtain such adjustments in its rates for the sale of electricity as will provide, beginning January 1, 1972, revenues sufficient to yield an annual rate of return on the average of the net value of fixed assets in operation and on other rate base components listed in Article 42 of Decree-Law No. 31 of September 27, 1958, all as provided in the Electricity Legislation, and shall not, until such rate of return has been achieved, reduce its rates in effect on the date of this Agreement.

(b) For the purposes of this Section:

- (i) the term “average of the net value of fixed assets in operation” means: one-half of the sum of (A) the value of the Borrower’s gross fixed assets in operation determined in accordance with methods of valuation and revaluation acceptable to the Bank less accumulated depreciation calculated on a straight-line basis at rates acceptable to the Bank at the beginning of the calendar year, plus (B) the value of the gross fixed assets in operation so determined less accumulated depreciation so calculated at the end of the year in question; provided, however, that when a major asset shall be brought into operation during the year, the value of such asset shall be included in the foregoing computation in respect of that part of the year during which such asset shall have been in operation;
- (ii) the term “revenues” means all revenues of the Borrower, including the proceeds of the special contribution, but excluding the subsidy, and shall be so defined in calculating the working capital; and
- (iii) the terms “subsidy” and “special contribution” have the same meanings as in paragraphs (d) and (e), respectively, of Section 5.09 of this Agreement.

Article VI

REMEDIES OF THE BANK; AMENDMENTS OF THE FIRST LOAN AGREEMENT

Section 6.01. If any event specified in Section 7.01 of the General Conditions or in Section 6.02 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Bank, at its option, may by notice to the Borrower and the Guarantor declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately together with the interest and other charges thereon and upon any such declaration such principal, interest and charges shall become due and payable immediately, anything to the contrary in this Loan Agreement or in the Bonds notwithstanding.

Section 6.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified:

- (a) the Electricity Legislation shall have been materially amended, suspended, abrogated, repealed or waived so as to affect the operations of the Borrower adversely, and such event shall continue for a period of sixty days; and
- (b) if any authorization or ratification by the legislature of the Guarantor shall be required after such legislature shall have convened in order to enable the Borrower or the Guarantor to perform its obligations under the Loan Agreement or the Guarantee Agreement, respectively, and such authorization or ratification shall not have been obtained.

Section 6.03. (a) For the purposes of the First Loan Agreement: (i) Section 5.08 thereof shall be amended to read as in Section 5.09 of this Agreement provided; and (ii) Section 5.09 thereof shall be amended to read as in Section 5.10 of this Agreement provided, such amendments to become effective as of January 1, 1972.

- (b) Paragraph (c) of Section 5.07 of the First Loan Agreement is deleted.

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Loan Agreement within the meaning of Section 11.01 (c) of the General Conditions:

- (a) that the Guarantor has made provision satisfactory to the Bank to the effect that (i) the Borrower's representatives in the Regulatory Commission are removed therefrom; (ii) the Borrower comes under the jurisdiction of the Regulatory Commission; and (iii) all action required or permitted under the Electricity Legislation in respect of the finances of public utilities in Panama is such as will, in the Bank's judgment, not endanger their financial condition, the quality of their services or their expansion capacity; and

(b) that such standards satisfactory to the Bank are set as will allow the Regulatory Commission adequately to exercise its rate-fixing authority in respect of telephone services.

Section 7.02. The following are specified as additional matters, within the meaning of Section 11.02 (c) of the General Conditions to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Guarantor's contributions to the Borrower have been defined as non-interest bearing, non-repayable equity, upon which no dividends may be declared or other cash distributions made;

(b) that all governmental action has been duly and validly taken which shall be necessary to enable the Borrower to obtain rates for the sale of electricity as required by Section 5.10 of this Agreement and Section 3.06 of the Guarantee Agreement; and

(c) that all of the action to be taken pursuant to Section 7.01 of this Agreement has been duly and validly taken.

Section 7.03. The date of July 13, 1970 is hereby specified for the purposes of Section 11.04 of the General Conditions.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be April 30, 1976, or such other date as shall be agreed between the Bank and the Borrower.

Section 8.02. The following addresses are specified for the purposes of Section 10.01 of the General Conditions:

For the Bank:

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

Alternative address for cables:

Intbafrad
Washington, D.C.

For the Borrower:

Instituto de Recursos Hidráulicos y Electrificación
Apartado 5285
Panamá 5

Alternative address for cables:

IRHE
Panama

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 to be 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 S. ALDEWERELD
Vice-President

Instituto de Recursos Hidráulicos y Electrificación:

By RAFAEL AYAX MOSCOTE
Authorized Representative

SCHEDULE 1

ALLOCATION OF PROCEEDS OF LOAN

<i>Category</i>	<i>Amounts Expressed in Dollar Equivalent</i>
I. Bayano Civil Works	13,740,000
II. Bayano Equipment and Machinery	10,760,000
III. Las Minas Civil Works	920,000
IV. Las Minas Equipment and Machinery	4,100,000
V. Diesel Units and Substation—Central Provinces and Panama West	820,000
VI. Bayano-Panama Transmission Lines	1,400,000
VII. Las Minas-Panama Transmission Lines	770,000
VIII. Panama Substation	1,840,000
IX. Distribution expansion, buildings and structures, and miscellaneous equipment	2,460,000
X. Engineering, Consultants, Training, Studies for future Power Development	3,250,000
XI. Unallocated	1,940,000
TOTAL	<u><u>42,000,000</u></u>

REALLOCATION UPON CHANGE IN COST ESTIMATES

1. If the estimate of the cost of the items included in any of the Categories I to X shall decrease, the amount of the Loan then allocated to, and no longer required for, such Category will be reallocated by the Bank to Category XI.

2. If the estimate of the cost of the items included in any of the Categories I to X shall increase, an amount equal to the portion, if any, of such increase to be financed out of the proceeds of the Loan will be allocated by the Bank, at the request of the Borrower, to such Category XI, subject, however, to the requirements for contingencies, as determined by the Bank, in respect of the cost of the items in the other Categories.

SCHEDULE 2
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>
May 1, 1976	520,000	May 1, 1986	1,035,000
November 1, 1976	540,000	November 1, 1986	1,070,000
May 1, 1977	555,000	May 1, 1987	1,110,000
November 1, 1977	575,000	November 1, 1987	1,150,000
May 1, 1978	595,000	May 1, 1988	1,190,000
November 1, 1978	620,000	November 1, 1988	1,230,000
May 1, 1979	640,000	May 1, 1989	1,275,000
November 1, 1979	660,000	November 1, 1989	1,315,000
May 1, 1980	685,000	May 1, 1990	1,365,000
November 1, 1980	710,000	November 1, 1990	1,410,000
May 1, 1981	735,000	May 1, 1991	1,460,000
November 1, 1981	760,000	November 1, 1991	1,510,000
May 1, 1982	785,000	May 1, 1992	1,565,000
November 1, 1982	815,000	November 1, 1992	1,620,000
May 1, 1983	840,000	May 1, 1993	1,675,000
November 1, 1983	870,000	November 1, 1993	1,735,000
May 1, 1984	900,000	May 1, 1994	1,795,000
November 1, 1984	935,000	November 1, 1994	1,860,000
May 1, 1985	965,000	May 1, 1995	1,925,000
November 1, 1985	1,000,000		

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), 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 portion of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions or on the redemption of any Bond prior to its maturity pursuant to Section 8.15 of the General Conditions:

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity.....	¾%
More than three years but not more than six years before maturity.....	2%
More than six years but not more than eleven years before maturity.....	2¾%
More than eleven years but not more than sixteen years before maturity.....	4¼%
More than sixteen years but not more than twenty-one years before maturity.....	5½%
More than twenty-one years but not more than twenty-three years before maturity.....	6½%
More than twenty-three years before maturity.....	7%

SCHEDULE 3

DESCRIPTION OF THE PROJECT

The Project consists of:

- (1) the first stage of the Bayano hydroelectric development, including access roads, one main dam, an auxiliary dam, a powerhouse with the first two 75 MW units, about 80 km of 230 kv transmission line to Panama City, and a receiving substation;
- (2) a 40 MW steam unit (No. 4) to be constructed at Las Minas on the Atlantic coast;
- (3) about 55 km of 115 kv transmission line from Bahia Las Minas to Panama City;
- (4) 6 MW of additional diesel capacity for the Central Provinces and the western part of Panama Province, including 7.5 MVA of substation facilities;
- (5) expansion of distribution systems, addition of small diesel units, buildings and structures, and miscellaneous equipment during 1970-1972;
- (6) engineering services and management consultants' services to assist the Borrower in further improving its organization and management; and
- (7) comprehensive survey and studies for future electric power development and overseas training for the Borrower's staff.

The Project is expected to be completed by mid-1975.

SCHEDULE 4

SUPPLEMENTARY PROCUREMENT PROCEDURES

With respect to contracts for goods and services required for the Project (excepting contracts for consultants' services), the following supplementary procurement procedures shall apply:

(1) Contracts involving an amount of \$50,000 equivalent or more will be subject to the following rules:

- (a) Before bids are invited, the Borrower will submit to the Bank for approval the invitations to bid, specifications, the proposed terms and conditions of contracts and other tender documents, together with a description of advertising procedures.
- (b) After bids have been received and analyzed, the bid analysis and recommendation for award of the Borrower and the Consultants, together with the reasons for such recommendation, will be submitted by the Borrower to the Bank for approval prior to the award or the issuance of a letter of intent.
- (c) If any final contract or letter of intent is to differ substantially from the terms and conditions contained in the respective documents approved by the Bank under paragraphs (a) and (b) above, the text of the proposed changes will be submitted to the Bank for its review and approval prior to the execution of such contract or issuance of such letter of intent.
- (d) One signed copy of any letter of intent issued and of any contract executed under this paragraph (1) will be sent to the Bank promptly upon its issuance or execution.

(2) For other contracts the Borrower will furnish to the Bank any invitation to bid, bid evaluation report and one signed copy of any such contract or letter of intent, and any other material relevant thereto that the Bank shall request, promptly after execution of any such contract or issuance of any such letter of intent and prior to the submission to the Bank of the first application for withdrawal from the Loan Account in respect of such contract.
