No. 16449

UNITED STATES OF AMERICA
and
PANAMA

Loan Agreement for Education Sector Loan II (with annex and official Spanish translation). Signed at Panamá on 19 November 1975

Authentic text: English.

Registered by the United States of America on 13 February 1978.

ÉTATS-UNIS D'AMÉRIQUE
et
PANAMA

Accord de prêt pour le secteur de l'enseignement (Prêt n° II) [avec annexe et traduction espagnole officielle]. Signé à Panama le 19 novembre 1975

Texte authentique : anglais.

Enregistré par les États-Unis d'Amérique le 13 février 1978.

LOAN AGREEMENT[1] BETWEEN THE REPUBLIC OF PANAMA AND THE UNITED STATES OF AMERICA FOR EDUCATION SECTOR LOAN II

Dated: November 19, 1975

A.I.D. Loan No. 525-V-043

LOAN AGREEMENT dated November 19, 1975, between the REPUBLIC OF PANAMA ("Borrower") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("Lender").

Article I. THE LOAN

Section 1.01. THE LOAN. Lender agrees to lend to the Borrower pursuant to the Foreign Assistance Act of 1961, as amended, an amount not to exceed Eleven Million United States Dollars ($11,000,000) ("Loan") to assist the Borrower in carrying out the Project referred to in Section 1.02 ("Project"). The Loan shall be used exclusively to finance offshore costs of goods and services required for the Project ("Offshore Costs") and local costs of goods and services required for the Project ("Local Costs"). The aggregate amount of disbursements under the Loan is hereinafter referred to as "Principal".

Section 1.02. THE PROJECT. The Project shall consist of the modernization, restructuring and reorientation of educational programs at all levels within the formal and non-formal educational system.

The Project is more fully described in Annex I, attached hereto, which Annex may be modified in writing. The goods and services to be financed under the Loan shall be listed in the implementation letters referred to in Section 8.03 ("Implementation Letters").

Article II. LOAN TERMS

Section 2.01. INTEREST. The Borrower shall pay to Lender interest which shall accrue at the rate of two percent (2%) per annum for ten years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance shall accrue from the date of each respective disbursement (as such date is defined in Section 6.04), and shall be computed on the basis of a 365-day year. Interest shall be payable semi-annually. The first payment of interest shall be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by Lender.

Section 2.02. REPAYMENT. The Borrower shall repay to Lender the Principal within forty (40) years from the date of the first disbursement hereunder in sixty-one (61) approximately equal semi-annual installments of Principal and interest. The first installment of Principal shall be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accord-

[1] Came into force on 19 November 1975 by signature.

ance with Section 2.01. Lender shall provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

Section 2.03. APPLICATION, CURRENCY, AND PLACE OF REPAYMENT. All payments of interest and Principal hereunder shall be made in United States dollars and shall be applied first to the payment of interest due and then to the repayment of Principal. Except as Lender may otherwise specify in writing, all such payments shall be made to the Controller, Agency for International Development, Washington, D.C., U.S.A., and shall be deemed made when received by the Office of the Controller.

Section 2.04. PREPAYMENT. Upon payment of all interest and refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Any such prepayment shall be applied to the installments of Principal in the inverse order of their maturity.

Section 2.05. RENEGOTIATION OF THE TERMS OF THE LOAN. The Borrower agrees to negotiate with Lender, at such time or times as Lender may request, an acceleration of the repayment of the Loan in the event that there is any significant improvement in the internal and external economic and financial position and prospects of the Republic of Panama.

Article III. CONDITIONS PRECEDENT TO DISBURSEMENT

Section 3.01. CONDITIONS PRECEDENT TO INITIAL DISBURSEMENT. Prior to the first disbursement or to the issuance of the first Letter of Commitment under the Loan, the Borrower shall, except as Lender may otherwise agree in writing, furnish to Lender in form and substance satisfactory to Lender:

(*a*) an opinion of the Procurador General of Panama that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(*b*) a statement of the names of the persons holding or acting in the office of the Borrower specified in Section 8.02, and a specimen signature of each person specified in such statement;

(*c*) evidence that the Borrower has appointed a Project Administrator, who is an employee of the Borrower, with authority and responsibility for coordinating all aspects of the Project; and

(*d*) a time-phased plan for the implementation of the Project.

Section 3.02. CONDITIONS PRECEDENT TO SCHOOL CONSTRUCTION. Prior to any disbursement or to the issuance of any Letter of Commitment under the Loan for construction, the Borrower shall, except as Lender may otherwise agree in writing, furnish to Lender in form and substance statisfactory to Lender:

(*a*) evidence that the Borrower has obtained for itself or for project purposes real property rights, including easements and rights of way, required for the construction and operation of the particular school to be constructed;

(*b*) a plan to maintain schools and equipment therein ("Maintenance Plan"); and

(*c*) evidence that it has contracted with a qualified consultant to assist the Ministry of Education's newly created Inspection and Maintenance Department.

Section 3.03. CONDITIONS PRECEDENT TO THE CONSTRUCTION OF THE EDUCATION DEVELOPMENT CENTER. Prior to any disbursement or to the issuance of any Letter of Commitment under the Loan for construction of the Education Development Center, Borrower shall except as Lender may otherwise agree in writing, furnish to Lender in form and substance satisfactory to Lender:

(*a*) evidence that graduates of the Educator Training Program to be established in the Education Development Center will be certified to teach in the General Basic School System; and

(*b*) evidence that the Borrower has obtained for itself or for project purposes, real property rights, including easements and rights of way, required for the construction and operation of the Education Development Center.

Section 3.04. TERMINAL DATES FOR MEETING CONDITIONS PRECEDENT TO DISBURSEMENT. (*a*) If all of the conditions specified in Section 3.01 shall not have been met within 120 days from the date of this Agreement, or such later date as Lender may agree to in writing, Lender, at its option, may terminate this Agreement by giving written notice to the Borrower. Upon the giving of such notice, this Agreement and all obligations of the parties hereunder shall terminate.

(*b*) If all of the conditions specified in Sections 3.02 and 3.03 shall not have been met on such later dates as Lender may specify in writing, Lender, at its option, may cancel the then undisbursed balance of the amount of the Loan and/or may terminate this Agreement by giving written notice to the Borrower. In the event of a termination, upon the giving of notice, the Borrower shall immediately repay the Principal then outstanding and shall pay any accrued interest and, upon receipt of such payments in full, this Agreement and all obligations of the parties hereunder shall terminate.

Section 3.05. NOTIFICATION OF MEETING OF CONDITIONS PRECEDENT TO DISBURSEMENT. Lender shall notify the Borrower upon determination by Lender that the conditions precedent to disbursement specified in Section 3.01, and, as the case may be, 3.02 and 3.03 have been met.

Article IV. GENERAL COVENANTS AND WARRANTIES

Section 4.01. EXECUTION OF THE PROJECT. (*a*) The Borrower agrees to carry out the Project with due diligence and efficiency, and in conformity with sound engineering, construction, financial, administrative, and management practices. In this connection, the Borrower agrees at all times to employ suitably qualified and experienced personnel to be professionally responsible for the design and execution of the Project and suitably qualified and competent construction contractors to carry out the Project. The communities, under competent supervision, may participate in the execution of the Project.

(*b*) The Borrower agrees to cause the Project to be carried out in conformity with all of the plans, specifications, contracts, schedules, and other arrangements, and with all modifications therein, approved by Lender pursuant to this Agreement.

Section 4.02. FUNDS AND OTHER RESOURCES TO BE PROVIDED BY BORROWER. The Borrower shall provide promptly as needed all funds, in addition

to the Loan, and all other resources required for the punctual and effective carrying out, maintenance, repair, and operation of the Project, including the execution of the approved school maintenance plan.

Section 4.03. CONTINUING CONSULTATION. (*a*) The Borrower and Lender shall cooperate fully to assure that the purpose of the Loan will be accomplished. To this end, the Borrower and Lender shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Project, the performance by the Borrower of its obligations under this Agreement, the performance of the consultants, contractors, and suppliers engaged on the Project, and other matters relating to the Project.

(*b*) In this respect, one year from the date of first disbursement and annually thereafter, during the life of the Project, Borrower shall conduct jointly with Lender an intensive review and evaluation of the progress of the Project.

Section 4.04. MANAGEMENT. The Borrower shall provide qualified and experienced management for the Project and it shall train such staff as may be appropriate for the maintenance and operation of the Project.

Section 4.05. OPERATION AND MAINTENANCE. The Borrower shall cause the installations constructed as part of Project to be operated, maintained, and repaired in conformity with sound engineering, financial, administrative, and managerial practices and in such manner as to insure the continuing and successful achievement of the purposes of the Project.

Section 4.06. TAXATION. (*a*) This Agreement, the Loan, and any evidence of indebtedness issued in connection herewith shall be free from, and the Principal and interest shall be paid without deduction for and free from, any taxation or fees imposed under the laws in effect with the Republic of Panama, or any political subdivision thereof except Municipalities.

(*b*) In the event of any municipal taxation or fees being imposed with respect to this Agreement, the Loan or any evidence of indebtedness issued in connection herewith, Borrower warrants that it will pay said taxation or fees from resources other than the Loan and other than the funds which Borrower is otherwise obligated to contribute to the Project.

(*c*) To the extent that (i) any contractor, including any consulting firm, any personnel of such contractor financed hereunder, any property or transactions relating to such contracts, and (ii) any commodity procurement transaction financed hereunder, are not exempt from identifiable taxes, tariffs, duties, and other levies imposed under laws in effect in Panama, or any political subdivision thereof, Borrower agrees, as and to the extent prescribed in and pursuant to Implementation Letters, to pay or reimburse the same under Section 4.02 of this Agreement with funds other than those provided under the Loan.

Section 4.07. UTILIZATION OF GOODS AND SERVICES. (*a*) Goods and services financed under the Loan shall be used exclusively for the Project, except as Lender may otherwise agree in writing. Upon completion of the Project, or at such other time as goods financed under the Loan can no longer usefully be employed for the Project, the Borrower may use or dispose of such goods in such manner as Lender may agree to in writing prior to such use or disposition.

(*b*) Except as Lender may otherwise agree in writing, no goods or services financed under the Loan shall be used to promote or assist any foreign aid project or activity associated with or financed by any country not included in Code 935 of the *A.I.D. Geographic Code Book* as in effect at the time of such use.

Section 4.08. DISCLOSURE OF MATERIAL FACTS AND CIRCUMSTANCES. The Borrower represents and warrants that all facts and circumstances that it has disclosed or caused to be disclosed to Lender in the course of obtaining the Loan are accurate and complete, and that it has disclosed to Lender, accurately and completely, all facts and circumstances that might materially affect the Project and the discharge of obligations under this Agreement. The Borrower shall promptly inform Lender of any facts and circumstances that may hereafter arise that might materially affect, or that it is reasonable to believe might materially affect, the Project or the discharge of obligations under this Agreement.

Section 4.09. COMMISSIONS, FEES AND OTHER PAYMENTS. (*a*) The signatories warrant and covenant that in connection with obtaining the Loan, or taking any action under or with respect to this Agreement, neither has paid, nor will pay or agree to pay, nor to the best of either party's knowledge has there been paid nor will there be paid or agreed to be paid by any other person or entity, commissions, fees, or other payments of any kind, except as regular compensation to full time officers and employees or as compensation for bona fide professional, technical, or comparable services. The signatories shall promptly report any payment or agreement to pay for such bona fide professional, technical, or comparable services to which either is a party or of which it has knowledge (indicating whether such payment has been made or is to be made on a contingent basis), and if the amount of any such payment is deemed unreasonable by Lender, the same shall be adjusted in a satisfactory manner.

(*b*) The signatories warrant and covenant that no payments have been or will be received by either party, or any official of either party, in connection with the procurement of goods and services financed hereunder, except fees, taxes, or similar payments legally established in the Republic of Panama or in the United States of America.

Section 4.10. MAINTENANCE AND AUDIT OF RECORDS. The Borrower shall maintain, or cause to be maintained, in accordance with sound accounting principles and practices consistently applied, books and records relating both to the Project and to this Agreement. Such books and records shall, without limitation, be adequate to show:

(*a*) the receipt and use made of goods and services acquired with funds disbursed pursuant to this Agreement;

(*b*) the nature and extent of solicitations of prospective suppliers of goods and services acquired;

(*c*) the basis of the award of contracts and orders to successful bidders; and

(*d*) the progress of the Project.

Such books and records shall be regularly audited, in accordance with sound auditing standards, at such intervals as may be agreed between Borrower and Lender (at a frequency of not less than once per year). Such books and records

shall be maintained for five years after the date of the last disbursement by Lender or until all sums due Lender under this Agreement have been paid, whichever date shall first occur.

Section 4.11. REPORTS. The Borrower shall furnish to Lender such information and reports relating to the Loan and to the Project as Lender may reasonably request.

Section 4.12. INSPECTIONS. The authorized representatives of Lender shall have the right with prior notification to the Borrower at all reasonable times to inspect the Project, the utilization of all goods and services financed under the Loan, and the Borrower's books, records, and other documents relating to the Project and the Loan. The Borrower shall cooperate with Lender to facilitate such inspections and shall permit representatives of Lender to visit any part of the country of the Borrower for any purpose relating to the Loan.

Article V. PROCUREMENT

Section 5.01. PROCUREMENT FROM A.I.D. GEOGRAPHIC CODE 941 COUNTRIES. Except as Lender may otherwise agree in writing, and except as provided in subsection 5.09(*c*) with respect to marine insurance, disbursements made pursuant to Section 6.01 shall be used exclusively to finance the procurement for the Project of goods and services having their source and origin in countries included in Code 941 of the *A.I.D. Geographic Code Book* as in effect at the time orders are placed or contracts are entered into for such goods and services. All ocean shipping financed under the Loan shall have both its source and origin in countries included in Code 941 of the *A.I.D. Geographic Code Book* as in effect at the time of shipment.

Section 5.02. PROCUREMENT FROM THE REPUBLIC OF PANAMA. Disbursements made pursuant to Section 6.02 shall be used exclusively to finance the procurement for the Project of goods and services having both their source and origin in the Republic of Panama.

Section 5.03. ELIGIBILITY DATE. Except as Borrower and Lender may otherwise agree in writing, no goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement.

Section 5.04. GOODS AND SERVICES NOT FINANCED UNDER THE LOAN. Goods and services procured for the Project, but not financed under the Loan shall have their source and origin in countries included in Code 935 of the *A.I.D. Geographic Code Book* as in effect at the time orders are placed for such goods and services.

Section 5.05. IMPLEMENTATION OF PROCUREMENT REQUIREMENTS. The definitions applicable to the eligibility requirements of Sections 5.01, 5.02 and 5.04 will be set forth in detail in Implementation Letters consistent with Panamanian law.

Section 5.06. PLANS, SPECIFICATIONS AND CONTRACTS. (*a*) Except as Lender may otherwise agree in writing, the Borrower shall furnish to Lender promptly upon preparation, all plans, specifications, construction schedules, bid documents, and contracts relating to the Project, and any modifications therein.

(*b*) Except as Lender may otherwise agree in writing, all of the plans, specifications, and construction schedules furnished pursuant to subsection (*a*) above shall be approved by Lender in writing.

(*c*) All bid documents and documents related to the solicitation of proposals relating to goods and services financed under the Loan shall be approved by Lender in writing prior to their issuance. All plans, specifications, and other documents relating to goods and services financed under the Loan shall be in terms of normal standards and measurements of the United States or Panama except as Lender may otherwise agree in writing.

(*d*) The following contracts financed under the Loan shall be approved by Borrower and Lender in writing in the following manner:

(i) contracts for engineering, prior to their execution;

(ii) contracts for construction services, prior to their execution;

(iii) contracts for professional services and for such other services as Borrower and Lender may specify, with prior consultation with the Lender; and

(iv) contracts for such equipment and materials as Borrower and Lender may specify, prior to their execution.

In the case of any of the above contracts for services, Borrower and Lender shall also approve in writing the contractor and such key contractor personnel as Borrower and Lender may have previously specified. Material modifications in any of such contracts and changes in any of such personnel shall also be subject to consultation in writing with the Lender prior to their becoming effective.

(*e*) Consulting firms used by the Borrower for the Project but not financed under the Loan, the scope of their services and such of their personnel assigned to the Project as Lender may specify, and construction contractors used by the Borrower for the Project but not financed under the Loan shall be acceptable to Borrower and Lender.

Section 5.07. REASONABLE PRICE. No more than reasonable prices shall be paid for any goods or services financed, in whole or in part, under the Loan, as more fully described in Implementation Letters. Such items shall be procured on a fair and, except for professional services, on a competitive basis in accordance with procedures therefor prescribed in Implementation Letters.

Section 5.08. EMPLOYMENT OF THIRD COUNTRY NATIONALS. The employment of personnel to perform services under any construction contract financed under the Loan shall be subject to certain requirements with respect to nationals of countries other than the Republic of Panama and countries included in Code 941 of the *A.I.D. Geographic Code Book* as in effect at the time the construction contract is entered into. These requirements are prescribed in Implementation Letters.

Section 5.09. SHIPPING AND INSURANCE. (*a*) Code 941 goods financed under the Loan shall be transported to the country of the Borrower only on flag carriers of a country included in Code 935 of the *A.I.D. Geographic Code Book* as in effect at the time of shipment. No such goods may be transported on any ocean vessel (or aircraft) (i) when Lender, in a notice to the Borrower, has designated as ineligible to carry A.I.D.-financed goods or (ii) which has been

chartered for the carriage of A.I.D.-financed goods unless such charter has been approved by Lender.

(*b*) Unless Borrower and Lender shall determine that privately owned United States flag commercial vessels are not available at fair and reasonable rate for such vessels, (i) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed under the Loan which may be transported on ocean vessels shall be transported on privately owned United States flag commercial vessels, and (ii) at least fifty percent (50%) of the gross freight revenue generated by shipments financed under the Loan and transported to the Republic of Panama on dry cargo liners shall be paid to or for the benefit of privately owned United States flag commercial vessels. Compliance with the requirements of (i) and (ii) above must be achieved with respect to both cargo transported from U.S. ports and cargo transported from non U.S. ports, computed separately.

(*c*) Marine insurance on Code 941 goods may be financed under the Loan with disbursements made pursuant to Section 6.01, provided (i) such insurance is placed at the lowest available competitive rate in the Republic of Panama or in a country included in Code 941 of the *A.I.D. Geographic Code Book* as in effect at the time of placement, and (ii) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Government of the Republic of Panama, by statute, decree, rule, regulation, or practice discriminates with respect to Lender-financed procurement against any marine insurance company authorized to do business in any state of the United States, then all goods shipped to the cooperating country financed under the Loan shall be insured against marine risks and such insurance shall be placed in the United States with a company or companies authorized to do a marine insurance business in a state of the United States.

(*d*) The Borrower shall insure, or cause to be insured, all Code 941 goods financed under the Loan against risks incident to their transit to the point of their use in the Project. Such insurance shall be issued upon terms and conditions consistent with sound commercial practice and shall insure the full value of the goods. Any indemnification received by the Borrower under such insurance shall be used to replace or repair any material damage or any loss of the goods insured or shall be used to reimburse the Borrower for the replacement or repair of such goods. Any such replacements shall have their source and origin in the Republic of Panama or in countries included in Code 941 of the *A.I.D. Geographic Code Book* as in effect at the time orders are placed or contracts are entered into for such replacements, and shall be otherwise subject to the provisions of this Agreement.

Section 5.10. NOTIFICATION TO POTENTIAL SUPPLIERS. In order that all United States firms shall have the opportunity to participate in furnishing goods and services to be financed under the Loan, the Borrower shall furnish to Lender such information with regard thereto, and at such times, as Lender may request in Implementation Letters.

Section 5.11. UNITED STATES GOVERNMENT-OWNED EXCESS PROPERTY. The Borrower shall utilize, with respect to goods financed under the Loan to which the Borrower takes title at the time of procurement, such reconditioned United States Government-owned Excess Property as may be consistent with the requirements of the Project and as may be available within a reasonable period

of time. The Borrower shall seek assistance from Lender and Lender will assist the Borrower in ascertaining the availability of and in obtaining such Excess Property. Lender will make arrangements for any necessary inspection of such property by the Borrower or its representative. The costs of inspection and of acquisition, and all charges incident to the transfer to the Borrower of such Excess Property, may be financed under the Loan. Prior to the procurement of any goods, other than Excess Property, financed under the Loan and after having sought such Lender assistance, the Borrower shall indicate to Lender in writing, on the basis of information then available to it, either that such goods cannot be made available from reconditioned United States Government-owned Excess Property on a timely basis or that the goods that can be made available are not technically suitable for use in the Project.

Section 5.12. INFORMATION AND MARKING. Borrower agrees to give publicity to the Loan and the Project as a joint program utilizing United States and Panamanian resources in furtherance of mutual objectives, identify the Project site, and mark goods financed under the Loan, as prescribed in Implementation Letters.

Article VI. DISBURSEMENTS

Section 6.01. DISBURSEMENT FOR OFFSHORE COSTS—LETTERS OF COMMITMENT TO UNITED STATES BANKS. Upon satisfaction of conditions precedent, the Borrower may, from time to time, request Lender to issue Letters of Commitment for specified amounts to one or more United States banks, satisfactory to Lender, committing Lender to reimburse such bank or banks for payments made by them to contractors or suppliers, through the use of Letters of Credit or otherwise, for Offshore Costs of goods and services procured for the Project in accordance with the terms and conditions of this Agreement. Payment by a bank to a contractor or supplier will be made by the bank upon presentation of such supporting documentation as Lender may prescribe in Letters of Commitment and Implementation Letters.

Banking charges incurred in connection with Letters of Commitment and Letters of Credit shall be for the account of the Borrower and may be financed under the Loan.

Section 6.02. DISBURSEMENT FOR LOCAL COSTS. Upon satisfaction of conditions precedent, the Borrower may, from time to time, request disbursement by Lender for Local Costs of goods and services procured for the Project in accordance with the terms and conditions of this Agreement by submitting to Lender such supporting documentation as Lender may prescribe in Implementation Letters. Funds utilized under the Loan to finance local costs shall be made available pursuant to procedures satisfactory to Lender.

Section 6.03. OTHER FORMS OF DISBURSEMENT. Disbursements of the Loan may also be made through such other means as the Borrower and Lender may agree to in writing.

Section 6.04. DATE OF DISBURSEMENT. Disbursements by Lender shall be deemed to occur (*a*) in the case of disbursements pursuant to Section 6.01, on the date on which Lender makes a disbursement to the Borrower, to its designee, or to a banking institution pursuant to a Letter of Commitment, and (*b*) in the case of disbursements pursuant to Section 6.02, on the date on which Lender disburses to the Borrower or its designee.

Section 6.05. TERMINAL DATE FOR DISBURSEMENT. Except as Borrower and Lender may otherwise agree in writing, no Letter of Commitment, or other commitment documents which may be called for by another form of disbursement under Section 6.03 or amendment thereto shall be issued in response to requests received by Lender, after September 15, 1978 and no disbursement shall be made against documentation received by Lender or any bank described in Section 6.01 after March 15, 1979. Lender at its option may at any time or times after September 15, 1978 reduce the Loan by all or any part thereof for which documentation was not received by such date.

Article VII. CANCELLATION AND SUSPENSION

Section 7.01. CANCELLATION BY MUTUAL AGREEMENT. The Borrower and Lender may mutually agree in writing to cancel any part of the Loan (i) which, prior to the date of said Agreement, Lender has not disbursed or committed itself to disburse, or (ii) which has not then been utilized through the issuance of irrevocable Letters of Credit or through bank payments made other than under irrevocable Letters of Credit.

Section 7.02. EVENTS OF DEFAULT; ACCELERATION. If any one or more of the following events ("Events of Default") shall occur:

(*a*) the Borrower shall have failed to pay when due any interest or installment of Principal required under this Agreement;

(*b*) the Borrower shall have failed to comply with any other provision of this Agreement, including, but without limitation, the obligation to carry out the Project with due diligence and efficiency;

(*c*) the Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between the Borrower or any of its agencies and Lender, or any of its predecessor agencies,

then Lender may, at its option, give to the Borrower notice that all or any part of the unrepaid Principal shall be due and payable sixty (60) days thereafter, and, unless the Event of Default is cured within such sixty (60) days:

(i) such unrepaid Principal and any accrued interest hereunder shall be due and payable immediately; and

(ii) the amount of any further disbursements made under then outstanding irrevocable Letters of Credit or otherwise shall become due and payable as soon as made.

Section 7.03. SUSPENSION OF DISBURSEMENT. In the event that at any time:

(*a*) an Event of Default has occurred;

(*b*) an event occurs that Borrower or Lender determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower will be able to perform its obligations under this Agreement;

(*c*) any disbursement by Lender would be in violation of the United States legislation governing Foreign Assistance;

(*d*) the Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies,

then Lender may, at its option:

(i) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through the issuance of irrevocable Letters of Credit or through bank payments made other than under irrevocable Letters of Credit, in which event Lender shall give notice to the Borrower promptly thereafter;

(ii) decline to make disbursements other than under outstanding commitment documents;

(iii) decline to issue additional commitment documents;

(iv) at Lender's expense, direct that title of goods financed under the Loan shall be transferred to Lender if the goods are from a source outside the country of the Borrower, are in a deliverable state and have not been offloaded in ports of entry of the country of the Borrower. Any disbursement made or to be made under the Loan with respect to such transferred goods shall be deducted from Principal.

Section 7.04. CANCELLATION BY LENDER. Following any suspension of disbursements pursuant to Section 7.03, if the cause or causes for such suspension of disbursements shall not have been eliminated or corrected within sixty (60) days from the date of such suspension, Lender may, at its option, at any time or times thereafter, cancel all or any part of the Loan that is not then either disbursed or subject to irrevocable Letters of Credit.

Section 7.05. CONTINUED EFFECTIVENESS OF AGREEMENT. Notwithstanding any cancellation, suspension of disbursement, or acceleration of repayment, the provisions of this Agreement shall continue in full force and effect until the payment in full of all Principal and any accrued interest hereunder.

Section 7.06. REFUNDS. (*a*) In the case of any disbursement not supported by valid documentation in accordance with the terms of this Agreement, or of any disbursement not made or used in accordance with the terms of this Agreement, Lender, notwithstanding the availability or exercise of any of the other remedies provided for under this Agreement, may require the Borrower to refund such amount in United States dollars to Lender within thirty days after receipt of a request therefor. Such amount shall be made available first for the cost of goods and services procured for the Project hereunder, to the extent justified; the remainder, if any, shall be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder. Notwithstanding any other provision in this Agreement, Lender's right to require a refund with respect to any disbursement under the Loan shall continue for five years following the date of such disbursement.

(*b*) In the event that Lender receives a refund from any contractor, supplier, or banking institution, or from any other third party connected with the Loan, with respect to goods or services financed under the Loan, and such refund relates

to an unreasonable price for goods or services, or to goods that did not conform to specifications, or to services that were inadequate, Lender shall first make such refund available for the cost of goods and services procured for the Project hereunder, to the extent justified, the remainder to be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder.

Section 7.07. EXPENSES OF COLLECTION. All reasonable costs incurred by Lender, other than salaries of its staff, in connection with the collection of any refund or in connection with amounts due Lender by reason of the occurrence of any of the events specified in Section 7.02 may be charged to the Borrower and reimbursed to Lender in such manner as Lender may specify.

Section 7.08. NONWAIVER OF REMEDIES. No delay in exercising or omission to exercise any right, power, or remedy accruing to Lender under this Agreement shall be construed as a waiver of any of such rights, powers, or remedies.

Article VIII. MISCELLANEOUS

Section 8.01. COMMUNICATIONS. Any notice, request, document, or other communication given, made, or sent, by the Borrower or Lender pursuant to this Agreement shall be in writing or by telegram, cable or radiogram and shall be deemed to have been duly given, made, or sent to the party to which it is addressed when it shall be delivered to such party by hand or by mail, telegram, cable, or radiogram at the following address:

To Borrower:

Mail Address: Ministerio de Educación
Apartado Postal 2440
Panamá 3, Rep. de Panamá

Cable Address: Ministerio de Educación
Panamá

To Lender:

Mail Address: United States Agency for International Development
Apartado 1099
Panamá 5, Rep. de Panamá

Cable Address: USAID
American Embassy
Panamá

Other addresses may be substituted for the above upon the giving of notice. All notices, requests, communications, and documents submitted to Lender hereunder may be in Spanish except as Lender and Borrower may agree in writing.

Section 8.02. REPRESENTATIVES. For all purposes relative to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the Minister of Education and Lender will be represented by the individual holding or acting in the office of Director, United States Agency for International Development Mission to Panama. Such individuals shall have the authority to designate additional representatives by written notice. In the event of any replacement or other designation of a representative hereunder, Borrower

shall submit a statement of the representative's name and specimen signature in form and substance satisfactory to Lender. Until receipt by Lender of written notice of revocation of authority of any of the duly authorized representatives of the Borrower designated pursuant to this Section, it may accept the signature of any such representative or representatives on any instrument as conclusive evidence that any action effected by such instrument is duly authorized.

Section 8.03. IMPLEMENTATION LETTERS. Lender shall from time to time issue Implementation Letters that will prescribe the procedures applicable hereunder in connection with the implementation of this Agreement. Nothing in such letters shall alter the terms of this Agreement.

Section 8.04. PROMISSORY NOTES. At such time or times as Lender may request, the Borrower shall issue promissory notes or such other evidences of indebtedness with respect to the Loan, in such form, containing such terms and supported by such legal opinions as Lender may reasonably request.

Section 8.05. APPROVALS. Documents or reports submitted by Borrower to Lender in connection with this Agreement, which must be in form satisfactory to Lender, are deemed to be in form and substance satisfactory to Borrower who is submitting them.

Section 8.06. TERMINATION UPON FULL PAYMENT. Upon payment in full of the Principal and of any accrued interest, this Agreement and all obligations of the Borrower and Lender under this Loan Agreement shall terminate.

IN WITNESS WHEREOF the Republic of Panama and the United States of America, acting through their respective duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written in the English and Spanish languages of which the Spanish is to be recognized as a translation from the English.

Republic of Panama:

By: [*Signed*]

MIGUEL A. SANCHÍZ
Minister of Finance

By: [*Signed*]

ARÍSTIDES ROYO
Minister of Education

United States of America:

By: [*Signed*]

WILLIAM JORDEN
Ambassador

By: [*Signed*]

GEORGE RUBLEE
Acting Director
Agency for International Development
Mission to Panama

ANNEX I

THE PROJECT

1. *Purpose:*

The Project to be jointly financed by Borrower and Lender has the following purposes:

1.1 To provide meaningful learning experiences which will be useful to Panamanians, primarily in rural areas in grades 1-9.

1.2 To augment the capacity of the educator training services—preparation, training and upgrading—of the general system of education.

1.3 To train middle-level manpower in applied industrial and technical fields.

1.4 To augment the national capacity in scientific research.

The Project is part of the effort the Government of Panama (GOP) is making for the expansion, transformation and reorientation of educational programs at all levels. It is designed to contribute to correcting the imbalance that exists in access to education between rural and urban groups and to make possible a more practical and vocationally oriented general, scientific and technical education which responds to the social and economic development needs of Panama.

2. *Description:*

Within the framework of the overall Project, the following four sub-projects will be carried out:

2.1 *Sub-project 1* will be the transformation and development of the General Basic Education Subsystem by:

2.1.1 Providing the General Directorate of Curriculum and Educational Technology of the Ministry of Education (MOE) technical cooperation, training, administrative and logistical support to carry out educational workshops and other activities necessary for the development of the new curriculum (including plans, programs, textbooks and other educational aids) for the General Basic Education level, grades 1-9.

2.1.2 Furnishing the MOE Educational Printing Center with equipment, materials, paper, technical cooperation and training to improve and accelerate production and distribution of educational materials, including books, textbooks, teachers guides and manuals necessary for the teaching of the General Basic Education Subsystem.

2.1.3 Providing the General Directorate of Curriculum and Educational Technology with technical cooperation, training, books, materials and basic library equipment to establish a Specialized Curriculum Library.

2.1.4 Constructing or converting through remodeling, rebuilding and/or additions to, at least thirty basic cycle schools, (grades 7-9). This will consist of changes in or additions to physical facilities at each school site as consistent with Project purposes and plans. The schools constructed or transformed will be adequately equipped with basic furniture, equipment and materials for libraries, classrooms, cafeterias, dormitories, home economics facilities, laboratories and agricultural and carpentry shops, as well as vehicles, and whatever other materials and equipment might facilitate the adequate functioning of the schools.

The schools will be predominantly in rural areas, but it is agreed that up to one-sixth of the funds allocated for construction or conversion in the General Basic Education Program may be used for investment in schools in non-rural areas. The GOP or local communities, at the time of initiating each project, will provide duly legalized building sites for school facilities, and in rural areas will provide cultivable land which will furnish practical learning experience with the objective of production. Regarding the non-rural schools receiving Project support, these will be provided with the means of access to facilities necessary for students to obtain practical learning experiences through the application of their skills in the actual working environment.

2.2 *Sub-project 2* will be the transformation of the traditional educator training system in the normal schools to a training program through an Educator Training and Educational Development Center by:

2.2.1 Providing to the General Directorate of Educator Training of the MOE resources for workshops, seminars, technical cooperation, training and essential equipment

and materials to equip the training program in an Educator Training and Educational Development Center in Santiago, Veraguas Province. Administrative, logistical and training support will be furnished under this Sub-project to establish interdisciplinary teams to conduct workshops and seminars for educators throughout the year. The Center will have: (1) a professional training staff of approximately 100 permanent administrative and teaching personnel and additional personnel as necessary for specific assignments as instructors in educator training during the period of transformation of the educator training system (it is estimated that this will take up to five years); (2) an in-service training program with the resources necessary to train, retrain or upgrade annually approximately 2,500 educators of the General Basic Education Subsystem; (3) various types of training programs for new educators of the agriculture and industrial arts curriculum and for all educators who are teaching in the educational system but who are not certified to teach in the General Basic Education Subsystem, and (4) a system of continuous evaluation of all categories of educators, to determine the effectiveness of the Educator Training Program.

2.2.2 Constructing and remodeling of the educator training installations in Santiago, Veraguas Province, and furnishing essential equipment for the establishment of the Educator Training and Educational Development Center with a capacity of 4,000 students. In addition to existing facilities, the Center will have: (1) dormitory facilities for 400 male students; (2) a shop for production of educational materials; (3) an educational experimentation and research center; (4) a print shop and printing equipment; (5) a library and documentation center; (6) one workshop with agricultural equipment; (7) one industrial production workshop; (8) one multi-purpose laboratory with essential equipment; (9) modified classrooms; (10) library, laboratory, shop, classroom, cafeteria, laundry and dormitory furniture, materials and equipment; and (11) vehicles for transportation.

2.2.3 Constructing workshop facilities and providing essential equipment for up to two small industrial arts or general shops and other installations and equipment necessary for the transformation of a second educator training center in the country.

2.2.4 Providing essential resources to diversify and regionalize the educational seminars and workshops which will be offered for educators of the general education system of the country.

2.3 *Sub-project 3* will be the development of a National Polytechnic System able to help meet in a flexible manner the changing technical manpower needs of the country in the applied technical and industrial fields by:

2.3.1 Providing Polytechnic personnel technical cooperation and training in such fields as manpower needs assessment, job performance analysis and programming.

2.3.2 Providing Polytechnic administrative and technical personnel opportunities for observation tours, attendance at seminars and workshops at technical institutes and/or other agencies or institutions both in Panama and other countries in order to develop a technical-professional program for middle-level technicians to meet national manpower needs and job training requirements.

2.3.3 Providing the Polytechnic technical cooperation and training including workshops and seminars for the evaluation of instructional systems in order to develop an organizational plan and delineate administrative and operational procedures to improve planning, programming, budgeting and evaluation systems of the Polytechnic, so that it may be an institution capable of renewal and adaptation to changing conditions.

2.3.4 Providing the Polytechnic teaching staff technical cooperation and training, through workshops, seminars and other appropriate activities, for teaching in the priority fields of industry and applied technology and to remodel present courses according

to the principles of competency-based education, adapting where appropriate, printed and other types of educational materials.

2.3.5 Providing the Polytechnic technical cooperation and other resources for design and effective utilization of learning resources centers and for the adequate implementation of industrial education.

2.3.6 Providing the Polytechnic, for the purpose of developing and introducing a functional program for training teaching staff, technical cooperation and training, both long and short term, including workshops and seminars in (1) organization and staff training; (2) development of a training program; (3) curriculum evaluation; (4) program design for upgrading in-service educators; (5) professional guidance, and (6) development of a system of help to graduates for their placement and of follow-up to get information concerning the results experienced.

2.3.7 Constructing and/or modifying the installations of the main location of the Polytechnic in Panamá City and of its extension in another area of the country, with the flexibility necessary to extend and regionalize its field of activity in accordance with the changing social, industrial and technological needs of the country.

2.3.8 Providing essential furniture, specialized equipment and educational materials for the classrooms, laboratories and workshops of this sub-project.

2.4 *Sub-project 4* will consist of the establishment of a Center for the Development of the National Capacity in Research by:

2.4.1 Establishing with the University of Panama a Center for the Development of the National Capacity in Research which will have the responsibility for carrying out applied research projects for agencies of the government and the private sector. Preference will be given to those programs which promise to be of benefit to national development. The Ministry of Education, for the purpose of improving the efficiency and effectiveness of its programs, will make agreements with the Center for the utilization of the services of the Center in research, development and evaluation activities.

2.4.2 Providing technical cooperation and training, including seminars and observation tours, in order to develop the capacity of the Center for the design of research, implementation of analytical techniques, for administration and for the management, implementation and evaluation of research projects.

2.4.3 Providing the Center with resources for technical and scientific documentation including indispensable specialized furniture and equipment.

2.4.4 Providing the Center with funds to cover initial costs of operation so that it may obtain earnings for services rendered to the public and private sectors to cover operational expenses.

2.4.5 Providing to the Ministry of Education, through the National Directorate of Planning and Educational Reform, funds for research and evaluation activities the MOE wishes to carry out and to underwrite the costs of developing innovative or experimental educational projects.

2.4.6 No less than fifty thousand dollars of the funds provided to the MOE under this loan will be reserved for evaluation of the Project.

3. *Project Management:*

The administration of the Project will be within the regular operating structure of the Ministry of Education, as follows:

3.1 The National Directorate of Planning and Educational Reform will have primary responsibility for planning and programming the Loan inputs and the counterpart of the Government of Panama, and for ensuring prompt implementation and evaluation by responsible departments within the Ministry of Education.

3.2 Fiscal control, accounting, audit and administrative functions will be the responsibility of the National Directorate of Administration and Finance of the MOE, the Chief Officer of which shall be the Administrator of the Project.

3.3 The Minister of Education shall be responsible for the overall Project implementation and will designate the Coordination of the Project as an integral part of the National Directorate of Administration and Finance, the functions of which will include the coordination of Project activities with each of the offices of the MOE and those others which may be connected with the implementation of the Project.

3.4 The Minister of Education will appoint and preside over a Project Implementation Committee, which will include representatives of each office of the Ministry of Education responsible for programs related to this Project as well as representatives of other institutions of the Government of Panama which may be directly related to its nature and implementation.

This Committee will be responsible for the coordination of the elements related to the Project with the proposed program to be financed by the Inter-American Development Bank (IDB) and with other related programs financed by other agencies or institutions.

3.5 The Project may provide technical cooperation and training of personnel responsible for the Project in management, planning and evaluation of projects and programs. The funds for this purpose may be obtained from the budgets for technical cooperation and training of the sub-projects.

4. *Financial Plan:*

The cost of the Project will be financed as follows:

	Lender	*Borrower*	*Total*
	(In thousands of $/B/.)		
I. *General Basic Education* (Grades 1-9)			
A. Land/Property Rights	—	550	550
B. Physical Facilities			
(1) Construction/Modification	3,400	2,250	5,650
(2) Architectural and Engineering Services	200	400	600
(3) Furniture, Equipment, Machinery and Educational Materials	2,535	1,150	3,685
(4) Maintenance	—	150	150
C. Technical Cooperation and Training	300	35	335
D. Community Contribution	—	1,250	1,250
E. Administrative and Logistical Support	—	110	110
TOTAL	6,435	5,895	12,330

	Lender	Borrower	Total
	(In thousands of $/B/.)		
II. *Teacher Training and Educational Development Center*			
A. Land/Property Rights	—	120	120
B. Physical Facilities			
(1) Construction/Modification	520	320	840
(2) Architectural and Engineering Services	—	100	100
(3) Furniture, Equipment, Machinery and Educational Materials	650	240	890
C. Technical Cooperation and Training	590	310	900
D. Administrative and Logistical Support	—	110	110
TOTAL	1,760	1,200	2,960
III. *National Polytechnic System*			
A. Land/Property Rights	—	440	440
B. Physical Facilities			
(1) Construction/Modification	1,150	730	1,880
(2) Architectural and Engineering Services	—	80	80
(3) Furniture, Equipment, Machinery and Educational Materials	680	420	1,100
C. Technical Cooperation and Training	550	220	770
TOTAL	2,380	1,890	4,270
IV. *Center for the Development of the National Capacity in Research*			
A. Furniture, Equipment and Educational Materials	25	15	40
B. Initial Costs of Operation	90	—	90
C. Research and Evaluation Fund (MOE)	300	80	380
D. Technical Cooperation and Training	10	75	85
E. Administrative and Logistical Support	—	135	135
TOTAL	425	305	730
GRAND TOTAL	11,000	9,290	20,290
PERCENTAGES	54.2	45.8	100