

**No. 16825**

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**UNITED STATES OF AMERICA  
and  
PANAMA**

**Loan Agreement for a rural health delivery system (with  
annex and official Spanish translation). Signed at  
Panamá (City) on 14 October 1976**

*Authentic text: English.*

*Registered by the United States of America on 10 July 1978.*

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**ÉTATS-UNIS D'AMÉRIQUE  
et  
PANAMA**

**Accord de prêt relatif à un système de distribution des ser-  
vices sanitaires ruraux (avec annexe et traduction  
espagnole officielle). Signé à Panamá le 14 octobre 1976**

*Texte authentique : anglais.*

*Enregistré par les États-Unis d'Amérique le 10 juillet 1978.*

## LOAN AGREEMENT<sup>1</sup> BETWEEN THE REPUBLIC OF PANAMA AND THE UNITED STATES OF AMERICA FOR A RURAL HEALTH DELIVERY SYSTEM

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Dated: October 14, 1976

A.I.D. Loan No. 525-U-045

LOAN AGREEMENT dated October 14, 1976, 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 nine million, five hundred thousand United States dollars (\$9,500,000) ("Loan") to assist 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 assist the institutionalization and improvement of the health delivery system that will provide basic preventive and curative health care services to and improved environmental sanitation conditions for the rural segments of the Panamanian population. The Project is more fully described in Annex I, attached hereto, which Annex may be modified by agreement of the Borrower and Lender in writing.

### *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 years after the date on which the first interest payment is due in accordance 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.

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<sup>1</sup> Came into force on 14 October 1976 by signature.

*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 fully 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 Borrower has appointed a Project Coordinator, with authority and responsibility for coordinating all aspects of the Project.

*Section 3.02.* CONDITIONS PRECEDENT TO DISBURSEMENT FOR CONSTRUCTION. Prior to the issuance of any commitment document or any disbursement under the Loan for Construction, Borrower shall furnish to Lender, in form and substance satisfactory to Lender:

- (a) Criteria for selecting the locations for health posts, health subcenters, health centers and related equipment;
- (b) Final standard designs and specifications for health posts, health subcenters, health centers and related equipment.

*Section 3.03.* CONDITIONS PRECEDENT TO DISBURSEMENT FOR THE TRAINING OF HEALTH ASSISTANTS. Prior to the issuance of any commitment document or any disbursement under the Loan for training of health assistants, Borrower shall furnish to Lender, in form and substance satisfactory to Lender, a detailed plan for training, supervising and evaluating health assistants, including a training curriculum.

*Section 3.04.* CONDITIONS PRECEDENT TO DISBURSEMENT FOR THE TRAINING OF OTHER HEALTH PERSONNEL. Prior to the issuance of any commitment document or any disbursement under the Loan for training of public health personnel other than health assistants, Borrower shall furnish to Lender, in form and substance satisfac-

tory to Lender, a detailed training plan setting forth, but not limited to, the nature and duration of such training.

*Section 3.05.* CONDITIONS PRECEDENT TO DISBURSEMENT FOR REMODELING HEALTH UNITS. Prior to the issuance of any commitment document or any disbursement under the Loan for the remodeling of any health unit, Borrower shall furnish to Lender, in form and substance satisfactory to Lender, detailed plans and specifications for such unit.

*Section 3.06.* 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 and all obligations of the parties hereunder shall terminate.

(b) If all of the conditions specified in Sections 3.02, 3.03 and 3.04 shall not have been met within 180 days from the date of this Agreement or 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 3.07.* NOTIFICATION OF MEETING OF CONDITIONS PRECEDENT TO DISBURSEMENT. Lender shall notify promptly 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, 3.03, 3.04 and 3.05 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.

(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 the Parties pursuant to this Agreement.

*Section 4.02.* FUNDS AND OTHER RESOURCES TO BE PROVIDED BY BORROWER. The Borrower shall budget for the Ministry of Health funds sufficient to finance the costs of the expanded delivery of health services required by the Project as it progresses and 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.

*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 Agree-

ment, the performance of the consultants, contractors and suppliers engaged on the Project, and other matters relating to the Project, including Implementation Letters.

(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 or cause to be trained 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 as the Parties may agree.

(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, who shall have the right to designate authorized representatives to accompany authorized representatives of the Lender, 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. Notwithstanding any other provisions hereunder, when motor vehicles are to be procured with loan funds they must be manufactured in the United States of America. 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, not including Panama, 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 the Parties 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 Borrower and Lender may otherwise agree in writing.

(d) The following contracts financed under the Loan shall be approved by Borrower and Lender in writing prior to their execution:

- (1) Contracts for engineering;
- (2) Contracts for construction services;
- (3) Contracts for professional services and for such other services as Borrower and Lender may specify; and

(4) Contracts for such equipment and materials as Borrower and Lender may specify.

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 to be 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) which 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 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 disbursement 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 disbursement pursuant to Section 6.02, on the date on which Lender disburses to the Borrower or its designee.

*Section 6.05. TERMINAL DATES 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 August 10, 1980, and no disbursement shall be made against documentation received by Lender or any bank described in Section 6.01 after February 10, 1981. Lender at its option may at any time or times after August 10, 1980, 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:

- (1) 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;
- (2) Decline to make disbursements other than under outstanding commitment documents;
- (3) Decline to issue additional commitment documents;
- (4) 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. NON-WAIVER 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: Ministry of Health  
Box 2048  
Panamá 1, R. P.

Cable Address: Ministry of Health  
Panama

To Lender:

Mail Address: Agency for International Development  
Box 6959  
Panamá 5, R. P.

Cable Address: USAID  
American Embassy  
Panama

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 Health 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 Treasury

*By: [Signed]*

ABRAHAM SAIED  
Minister of Health

United States of America:

*By: [Signed]*

WILLIAM JORDEN  
Ambassador

*By: [Signed]*

PAUL SÁENZ  
Acting Director  
United States Agency  
for International Development

## ANNEX I

## LOAN 525-U-045

The goal of this Project is to improve the health of the rural population of Panama by institutionalizing an integrated low-cost public health delivery system that will provide preventive and curative health care services and improve nutrition and environmental health conditions for this population.

The Project's resources, which consist of this AID loan, a Government of Panama contribution as well as a contribution and participation by the rural communities served, will be concentrated on five components:

- (1) Preventive and curative health care;
- (2) Environmental health;
- (3) Nutrition;
- (4) Administration; and
- (5) Training.

In general, these resources will be channeled through an integrated delivery system, pyramidal in structure, comprised of the following levels listed in ascending order of centralization:

1. Community organization;
2. Health posts;
3. Health sub-centers;
4. Health centers;
5. Provincial, national and specialized hospitals.

Community participation will be an essential element at every level of the Project. The basic unit of community involvement will be as specified in Government of Panama Decree 401, i.e.: Community Health Committees, Community Representatives, or *Juntas Comunales*. As basic instruments of popular organization at the local level, Community Health Committees will be established in a community prior to the initiation of project activities in that community. Community Health Committees will be composed of community members and leaders and will provide local organization, the community contribution to the Project, and motivation for other community members.

#### 1. *Preventive and Curative Health Care*

Health posts will be established or existing posts will be remodeled in rural communities or clusters of rural communities, with total populations of approximately 500 inhabitants and functioning Community Health Committees. The health posts will be staffed by trained health assistants, supervised by personnel at a proximate health center, and may provide services to adjacent communities (depending on local topography, transportation, etc.). Each post will be a basic structure (approximately 41 square meters, divided into two rooms), maintained by the community and providing a base of operations for the health assistant. Post construction will be phased to coincide with the training of the health assistants.

The preventive and curative health services available at the health posts will include such activities as maternal and child health care (including deliveries), first aid, vaccinations and family planning.

Some larger communities will be provided with health sub-centers, which will be staffed by a full-time nurse auxiliary and part-time sanitary technicians. The nurse auxiliary at the health sub-center will be assisted by periodic visits of personnel from the supervising health center. The nurse auxiliary will be supervised by the presiding physician at the proximate health center. The health sub-centers to be constructed in rural areas under this project will augment the 105 sub-centers that currently exist throughout Panama, and each will normally serve a population of approximately 2,000 people. In addition, certain existing health sub-centers will be remodeled.

Each sub-center will have a waiting room, both a medical and a dental examination room, an administration area and a pharmaceutical storage area. The sub-centers will be able to provide more extensive health care coverage than the health posts. The health sub-centers will receive referral patients from the health posts, and will provide primary health care for residents in the surrounding area.

Health centers will be constructed or remodeled under this project. Each will serve a population of approximately 15,000 to 20,000 people. Each health center will have a waiting room, both medical and dental examination rooms, pharmacy, laboratory, emergency treatment area, sanitary technician's office, and administration offices. Personnel at the health center will have supervisory and training responsibilities for the health post and sub-center staffs.

These health centers will be supervised by a physician who will also supervise other medical personnel, the sanitary technicians, nutritionists, nurse auxiliaries, and health assistants working within the health center's area of responsibility. The health center will also have on its staff nurse auxiliaries trained to perform more traditional nursing duties. For most rural Panamanians, the health posts and sub-centers will be the initial point of entry into a referral system encompassing progressively more specialized health services.

## 2. *Environmental Health*

Environmental health activities funded under this Project involve the construction of rural aqueducts, wells and latrines. Rural aqueducts will be constructed where feasible to serve rural communities with water. Each aqueduct will normally consist of a drilled well, an elevated storage tank, and about 6,000 linear feet of 2" main. Service lines connected with private yard faucets will provide water to individual homes. In smaller rural communities (population 50-100) hand-pumped wells will be installed to provide water supplies. Latrines will be constructed to provide individual village households with a safe means of excreta disposal. The basic unit will consist of a latrine house on a concrete pad with a seat placed over a pit measuring approximately 1 m × 1 m × 2 m. The environmental health activities will be supervised by sanitary technicians of the Ministry.

## 3. *Nutrition*

Nutrition activities are concerned with the development of community gardens and small animal projects and in general improving the nutritional status of the community's members.

After the submission by the Ministry of Health (the Ministry) of a plan for the establishment, operation and support of community gardens under this Project, new community gardens, in addition to those projects currently in existence, will be established. The garden projects are designed to encourage more annual plantings and the growing—and consumption—of nutritious low-cost foods not commonly utilized by the rural population. Gardens will be established in communities with a functioning community health committee or similar community organization, where adequate land (including access to irrigation) and a sufficient number of workers are available. The Government will provide agricultural extension agents who will give the communities technical advice on the establishment and maintenance of the gardens. Instruction will also be provided to teach the garden participants to use the vegetable produce in a nutritionally beneficial fashion. Small animal projects will be established to complement the community gardens in many rural areas. Where small animal projects are initiated, the Government will provide baby chicks or other appropriate small animals, feed, vaccine, and technical assistance to begin the Project.

## 4. *Administration*

Although most of the Project activities will take place at the community level, administrative support, technical assistance and training will be provided to the Ministry and Caja de Seguro Social to improve administrative, financial and managerial control and data-gathering systems and ultimately to further integrate the delivery of health services at all levels.

## 5. *Training*

The training component of this Project provides for the training of health assistants, nurse auxiliaries and sanitary technicians. Health assistants will be trained in the delivery of primary and community health care, referral procedures, community development and coordination of the environmental and nutritional components of the Project. These assistants will be trained in health centers in province-specific training programs. They, along with the Community Health Centers, will encourage the community to participate in "preventive self-care" activities and will serve as local community leaders.

Nurse auxiliaries will also be trained in programs held at the provincial level. While some nurse auxiliaries will staff the health sub-centers, others will be assigned to health centers and provincial hospitals.

At the level of the health sub-center, the nurse auxiliaries will deliver services in the area of preventive and curative care, environmental health and nutrition. However, they will also be trained to perform more traditional nursing tasks under the supervision of physicians at the health centers and hospitals.

Sanitary technicians will be trained to supervise improvement of rural environmental sanitation conditions.

In order to improve the managerial capability of the Ministry of Health and Caja de Seguro Social, a number of health professionals will be trained at the level of Master of Public Health.

### *Construction Related Equipment*

Construction equipment (including well drilling rigs, a motor crane, testing wells, pump installation accessories, auxiliary equipment, machine shop tools, maintenance and repair equipment and spare parts) and vehicles for the implementation of the activities listed under components 1-3 above, will be provided in the Project. Suppliers of specialized equipment will be responsible for providing appropriate training in the operation and maintenance of such equipment, and this will be so stipulated in any contract.

### *Construction plan*

With respect to the construction elements of the Project identified in components 1-2 above, the Ministry of Health plans to maintain overall control and supervisory responsibility of the various construction and equipment installation activities. Prior to the initiation of such construction and equipment procurement activities, the Ministry of Health will prepare and submit to AID for approval an implementation plan for construction management, field supervision, guidelines for community participation, and loan fund utilization that covers the four-year construction period. This implementation plan (Plan of Action) shall include specific details regarding Ministry of Health arrangements for scheduling and utilization of manpower resources necessary to carry out the work to be accomplished. Additionally, the Plan of Action shall include expected costs and delivery dates for the key items of equipment and construction material. The Plan shall include details for the subsequent one-year period of construction and equipment installation activities, with a more general plan for activities to be undertaken in the remaining year(s) of the Project.

### *Financing*

Table A is the estimated budget for the implementation of this Project.

The Fixed Amount Reimbursement (FAR) method of financing may be used for the following activities:

1. Construction of health posts;
2. Construction of rural aqueducts;
3. Construction of hand-pumped wells;
4. Construction of latrines.



The unit cost of the above items will be negotiated at a later date, based on the submission of estimated costs which will be submitted as part of the Plan of Action.

Financing of all remaining components (see below) shall be by traditional cost reimbursement methods:

1. Construction of health centers;
2. Construction of health sub-centers;
3. Construction of such health posts which are not identical to FAR model;
4. Community gardens;
5. Small animal projects;
6. Administration;
7. Equipment;
8. Training of health assistants, nurse auxiliaries, and sanitary technicians;
9. Remodeling.

In case of the construction for those items for which it is determined that the fixed amount reimbursement method is appropriate, AID will advance to the Ministry of Health funds necessary to purchase materials for the construction. This advance is to enable the Ministry to purchase larger quantities and effect savings in this manner. Advances will be made to the Ministry on presentation of documentation evidencing the issuance of procurement documents and review of delivery terms for the materials. The maximum amount of the advance calculated for any sub-project will not exceed 80% of the AID portion of the FAR amount for the sub-project. As each unit is completed and requests are received for payment under the Fixed Amount Reimbursement Method, the proportionate share of the unit price represented by materials will be deducted from the outstanding advance and payment will only be made for the balance.

A revolving advance of not to exceed ninety days' anticipated expenditures may be requested for all other items outside the fixed amount reimbursement methods, upon presentation of a schedule of 3 months' needs.

#### FINANCIAL PLAN\* (LOAN 045 RURAL HEALTH)

	<i>AID</i>	<i>GOP</i>	<i>Communities</i>	<i>Total</i>
<b>Health posts (225)</b>				
Land .....	—	—	112,500	112,500
Construction, Plans and Supervision ..	900,000	103,500	135,000	1,138,500
Equipment .....	450,000	—	—	450,000
Operations** .....	—	900,000	180,000	540,000
	(1,350,000)	(1,003,500)	(427,500)	(2,781,000)
<b>Health Sub-Centers (14)</b>				
Land .....	—	—	7,000	7,000
Construction, Plans and Supervision ..	180,600	18,060	—	198,660
Equipment .....	56,000	—	—	56,000
Operations** .....	—	189,000	44,800	233,800
	(236,600)	(207,060)	(51,800)	(495,460)
<b>Health Centers (4)</b>				
Land .....	—	—	16,000	16,000
Construction, Plans and Supervision ..	186,480	18,648	—	205,126
Equipment .....	80,000	—	—	80,000
Operations** .....	—	480,000	160,000	640,000
	(266,480)	(498,648)	(176,000)	(941,128)

	<i>AID</i>	<i>GOP</i>	<i>Communities</i>	<i>Total</i>
Aqueducts (300) .....	4,005,000	1,755,000	1,890,000	7,650,000
Handpump Wells (400) .....	212,000	216,000	80,000	508,000
Latrines (13,800) .....	828,000	938,400	552,000	2,318,400
Community Gardens (48)				
Material .....	720,000	—	—	720,000
Operations (Includes Extension Agents and Home Economists) .....	—	(104,780)***	—	—
Community Labor .....	—	—	192,000	192,000
	(720,000)	—	(192,000)	(912,000)
Small Animal Projects (75)				
Material .....	300,000	—	—	300,000
Community Labor .....	—	—	84,000	84,000
Operations (Includes Extension Agents and Home Economists) .....	—	(44,905)***	—	—
	(300,000)	—	(84,000)	(384,000)
Administration .....	400,000	—	—	400,000
Training				
Medical Assistants, Auxiliary Nurses, Sanitary Technicians, M.P.H.'s ...	580,000	608,304	—	1,188,304
Vehicles and Construction Related Equipment .....	252,420	—	—	252,420
Remodeling Existing Facilities .....	349,500	—	—	349,500
	9,500,000	5,226,912	3,453,300	18,180,212

\* Unit costs contained in this Financial Plan represent preliminary estimates and do not necessarily represent agreed unit costs for FAR reimbursement.

\*\* Represents operating costs for 2 years (average for life of project).

\*\*\* These operating expenses are part of the regular Ministry of Health Budget, and do not constitute a separate counterpart funding commitment for this project.