

**No. 19910**

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**UNITED STATES OF AMERICA  
and  
PANAMA**

**Project Loan Agreement for rural access roads (with  
annexes and attachment). Signed at Panama on  
23 August 1978**

*Authentic texts: Spanish and English.*

*Registered by the United States of America on 10 June 1981.*

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

**Accord de prêt pour un projet relatif aux routes de desserte  
rurale (avec annexes et document connexe). Signé à  
Panama le 23 août 1978**

*Textes authentiques : espagnol et anglais.*

*Enregistré par les États-Unis d'Amérique le 10 juin 1981.*

# PROJECT LOAN AGREEMENT<sup>1</sup> BETWEEN THE REPUBLIC OF PANAMA AND THE UNITED STATES OF AMERICA FOR RURAL ACCESS ROADS

August 23, 1978

Agency for International Development  
Project Loan No. 525-T-048

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PROJECT LOAN AGREEMENT dated August 23, 1978, between the REPUBLIC OF PANAMA ("Borrower") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("Lender").

### Article 1. THE AGREEMENT

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

<sup>1</sup> Came into force on 23 August 1978 by signature.

## Article 2. THE PROJECT

*Section 2.1. DEFINITION OF PROJECT.* The Project will consist of the development of a capacity to inspect, evaluate, select, construct and maintain all-weather access roads which will result in the reduction of transportation costs and will make vital services more accessible to small farmers in Panamá.

Annex 1, attached, amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.3, without formal amendment of this Agreement.

## Article 3. FINANCING

*Section 3.1. THE LOAN.* To assist the Borrower to meet the costs of carrying out the Project, Lender, in furtherance of the Alliance for Progress and pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Borrower under the terms of this Agreement an amount not to exceed ten million (\$10,000,000) United States ("U.S.") dollars ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal".

The Loan may be used to finance offshore costs, as defined in Section 7.1, and local costs, as defined in Section 7.2, of goods and services required for the Project.

*Section 3.2. BORROWER RESOURCES FOR THE PROJECT.* (a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Borrower for the Project will not be less than the equivalent of U.S. six million, six hundred and five thousand (\$6,605,000) including costs borne on an "in-kind" basis.

*Section 3.3. PROJECT ASSISTANCE COMPLETION DATE.* (a) The "Project Assistance Completion Date" (PACD), which is September 30, 1982, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as Lender may otherwise agree in writing, Lender will not issue or approve documentation which would authorize disbursement of the Loan for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by Lender or any bank described in Section 8.1 no later than nine (9) months following the PACD or such other period as the Lender agrees to in writing. After such period, the Lender, giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

#### Article 4. LOAN TERMS

*Section 4.1. INTEREST.* The Borrower will pay to the Lender interest which will accrue at the rate of two percent (2%) per annum for ten (10) 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 will accrue from the date (as defined in Section 8.4) of each respective disbursement, and will be payable semi-annually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by Lender.

*Section 4.2. REPAYMENT.* The Borrower will repay to the Lender the Principal within twenty (20) years from the date of the first disbursement of the Loan in twenty one (21) approximately equal semiannual installments of Principal and interest. The first payment of Principal will be due nine and one half (9-1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. The Lender will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

*Section 4.3. APPLICATION, CURRENCY, AND PLACE OF PAYMENT.* All payments of interest and Principal hereunder will be made in U.S. dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as Lender may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

*Section 4.4. PREPAYMENT.* Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless Lender otherwise agrees in writing, any such repayment will be applied to the installments of Principal in the inverse order of their maturity.

*Section 4.5. RENEGOTIATION OF TERMS.* (a) The Borrower and Lender agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of the Republic of Panama which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.2, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.2, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under sub-section (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties. In the absence of mutual agreement, the negotiations will take place at the office of Borrower's Minister of Planning and Economic Policy in Panama.

*Section 4.6. TERMINATION ON FULL PAYMENT.* Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Borrower and the Lender under it will cease.

*Article 5. CONDITIONS PRECEDENT TO DISBURSEMENT*

*Section 5.1. FIRST DISBURSEMENT.* Prior to the first disbursement under the Loan, or to the issuance by the Lender of documentation pursuant to which disbursement will be made, the Borrower will, except as otherwise agreed to by Lender in writing, furnish to Lender in form and substance satisfactory to Lender:

- (a) An opinion of the Procurador General de la Nación 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 name of the person holding or acting in the office of the Borrower specified in Section 9.3, and of any additional representatives, together with a specimen signature of each person specified in such statement.

*Section 5.2. ADDITIONAL DISBURSEMENT FOR CONSTRUCTION ACTIVITY.* Prior to disbursement under the Loan, or the issuance by the Lender of documentation pursuant to which disbursement will be made to finance construction activity, the Borrower will, except as otherwise agreed to in writing by Lender, furnish to the Lender in form and substance satisfactory to Lender:

- (a) Evidence that a road selection committee has been established in accordance with the Project Description included in the Project Agreement, and that the committee is carrying out its functions.
- (b) Formal acceptance by the Borrower of the system and criteria by which roads financed under the Project are to be selected.
- (c) Assurances that each road segment proposed for financing is free of any restriction or limitation which would interfere in any way with construction activity and full use and access by the intended beneficiaries.
- (d) A mutually acceptable plan for evaluation of all Project activities.

*Section 5.3. NOTIFICATION.* When the Lender has determined that the conditions precedent specified in Section 5.1 through 5.2 have been met, it will promptly notify the Borrower.

*Section 5.4. TERMINAL DATES FOR CONDITIONS PRECEDENT.* (a) If all of the conditions specified in Section 5.1 have not been met within 90 days from the date of this Agreement or such later date as the Lender may agree to in writing, the Lender, at its option, may terminate this Agreement by written notice to Borrower.

(b) If all of the conditions specified in Section 5.2 are not met within 120 days from the date of this Agreement, or such later date as the Lender may agree to in writing, the Lender, at its option, may cancel the then undisbursed balance of the Loan, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Borrower. In the event of such termination, the Borrower will repay immediately the Principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate.

#### Article 6. SPECIAL COVENANTS

*Section 6.1. PROJECT EVALUATION.* The Parties agree to establish a joint annual evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

*Section 6.2. ADDITIONAL COVENANTS.* Borrower hereby covenants and agrees that:

- (a) It will provide budgetary support at a level which is adequate to maintain the roads constructed under the Project.
- (b) Equipment obtained with Project financing will only be used for purposes of the Project during the life of the Project, and only for the continuation of the construction and maintenance of rural access roads for the duration of the life of the equipment.
- (c) It will periodically review its policy of Capital/Labor mixes during the life of the Project to increase to the maximum extent feasible the employment of unskilled labor in its road construction and maintenance programs.

#### Article 7. PROCUREMENT SOURCE

*Section 7.1. OFFSHORE COSTS.* Disbursement pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project 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 entered into for such goods and services, except as Lender may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex, Section C.1(b) with respect to marine insurance.

*Section 7.2. LOCAL COSTS.* Disbursements pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as Lender may otherwise agree in writing, their origin in Panama ("Local Costs").

#### Article 8. DISBURSEMENTS

*Section 8.1. DISBURSEMENTS FOR OFFSHORE COSTS.* (a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Offshore Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

- (1) By submitting to Lender, with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or (B) requests for Lender to procure commodities or services in Borrower's behalf for the Project; or
- (2) By requesting the Lender to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to Lender, committing the Lender to reimburse such banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, com-

mitting the Lender to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs the Lender to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

*Section 8.2. DISBURSEMENT FOR LOCAL COSTS.* After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Local Costs required for the Project in accordance with the terms of this Agreement, by submitting to the Lender, with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

*Section 8.3. OTHER FORMS OF DISBURSEMENT.* Disbursement of the Loan may also be made through such other means as the Parties may agree.

*Section 8.4. DATE OF DISBURSEMENT.* Disbursements by Lender will be deemed to occur (a) on the date on which Lender makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order; or (b) on the date on which Lender disburses to the Borrower or its designee in accordance with Section 8.2.

#### *Article 9. MISCELLANEOUS*

*Section 9.1. INVESTMENT GUARANTY—PROJECT APPROVAL.* Construction work to be financed under this Agreement is agreed to be a project approved by the Republic of Panama pursuant to the agreement between it and the United States of America of January 23, 1961, on the subject of investment guaranties,<sup>1</sup> and no further approval by the Republic of Panama will be required to permit the United States to issue investment guarantees under that agreement covering a contractor's investment in that Project.

*Section 9.2. COMMUNICATIONS.* Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To the Borrower:

Ministerio de Obras Públicas  
Apartado 1632  
Panamá, República de Panamá

Alternate address for telegrams:

Ministerio de Obras Públicas  
Panamá, R. P.

To the Lender:

Agency for International Development  
Apartado 6959  
Panamá 5, República de Panamá

Alternate address for telegrams:

USAID, American Embassy  
Panama, Republic of Panama

<sup>1</sup> United Nations, *Treaty Series*, vol. 445, p. 135.

All such communications will be in English or Spanish. Other addresses may be substituted for the above upon the giving of notice.

*Section 9.3. REPRESENTATIVES.* For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of Minister of Public Works and the Lender will be represented by the individual holding or acting in the office of Director, Agency for International Development, Mission to Panama, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Borrower, with specimen signatures, will be provided to Lender, which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

*Section 9.4. APPROVALS.* Documents or reports submitted by Borrower to Lender in connection with this Agreement, which must be in form and substance satisfactory to Lender, are deemed to be in form and substance satisfactory to Borrower who is submitting them.

*Section 9.5. STANDARD PROVISIONS ANNEX.* A "Project Loan Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

*Section 9.6. LANGUAGE OF AGREEMENT.* This Agreement is prepared in both English and Spanish. In the event of ambiguity or conflict between the two versions, the English language version will control.



EN FE DE LO CUAL, el Prestatario y los Estados Unidos de América, cada uno actuando por medio de su representante debidamente autorizado suscribe este Convenio, en el día indicado en su introducción.

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

Republic of Panama:

[*Signed — Signé*]

Lic. LUIS M. ADAMES  
Ministro de Hacienda y Tesoro<sup>1</sup>

The United States of America:

[*Signed — Signé*]

CHARLES B. WEINBERG  
Director  
USAID Mission to Panama

<sup>1</sup> Minister of Finance and the Treasury — Ministre des finances et du Trésor.

## ANNEX 1. PROJECT DESCRIPTION

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## ANNEX 1. PROJECT DESCRIPTION

AID Project Loan Agreement No. 525-T-048

*Section 1. INTRODUCTION*

1.1. The Project consists of the improvement and construction of feeder roads in rural areas linking farms to marketing and processing centers. The work will emphasize the reconstruction, reconditioning or improvement of existing dirt roads to a minimum all-weather standard. Labor-intensive road construction methods will be utilized. Maximum use will be made of local area labor and construction materials.

The principal beneficiaries, or target group, will be subsistence farmers, small farmers and ranchers and the rural poor.

1.2. Approximately 1,400 kms. of roads have been identified in regions considered suitable for further agricultural development. Of that total, this Project will upgrade or construct about 820 kms. of the highest priority road segments. During the 4-year implementation, this list will be expanded to include additional roads. It is expected that the roads selected for incorporation into the Project will be those from the list which demonstrate the highest degree of net benefits based on the subproject selection criteria. (See Selection Process.)

1.3. The types of roads to be improved will range from dirt tracks to deteriorated gravel surfaced roads and will be limited primarily to those areas with Class I and II soils potential.

1.4. The exceptions which would justify the use of lower potential soils in this Project are when additional inputs are assured, such as fertilizer, extension services, improved land use patterns, etc., and in the case of Government of Panama sponsored *asentamientos*. Only in exceptional cases would new rights of way be opened. In these cases environmental concerns would be fully considered and appropriate safeguards applied.

## Section 2. INSTITUTIONAL DEVELOPMENT

2.1. The Project will establish and institutionalize within the GOP an interministerial capacity to rationally evaluate and select rural access roads for improvement or construction. A Rural Road Selection Committee will be created which will select roads, assign priorities and recommend the method of execution (force account or contract).

2.2. The Project will institutionalize a system to select, maintain and expand the rural road network which will utilize labor-intensive methods and local labor contribution to the greatest extent possible.

2.3. Throughout the Project a major focus will be the improvement of the Government's capacity to design and build minimum standard roads that mitigate potential impacts on the environment.

## Section 3. RURAL ROAD SELECTION PROCESS

3.1. The Government of Panama will formally establish a rural road selection committee composed of a representative from the Ministry of Agricultural Development (MIDA) and a representative from the Ministry of Public Works (MOP). The Ministry of Planning and Economic Policy (MPPE), as appropriate, will provide policy guidance.

3.2. This Committee will use a subcommittee composed of an engineer and anthropologist or sociologist from MOP and a representative from MIDA for the purpose of analyzing in detail proposed roads.

3.3. The Committee will determine which roads are environmentally, economically and socially viable. Once the basic acceptability of candidate roads is determined, the selection process will establish relative priorities based on benefit/cost ratios, of the road or group of roads in one specific area.

3.4. MOP will receive requests from MIDA and communities for road improvement. Other Government agencies, in addition to MIDA, may also generate requests as they carry out programs in the rural areas. In order to be considered by the Selection Committee, any request must contain the following information:

- (1) An adequately drawn map of the candidate road that will allow the Rural Roads Selection Committee to locate it on specialized maps including those showing soils potential;
- (2) The road's length;
- (3) An estimate of the number and range of farm sizes served by the road; and
- (4) A list of principal crops grown in the area of the road.

3.5. The requests will be channeled to the Selection Committee. The information provided will be reviewed for accuracy and combined with additional information obtained from the Data Bank which the Committee will establish for the Project. The Data Bank will be a resource library which will contain such information as land use capability maps, census data, climatological and topographic road maps, investment plans of the various ministries, and project descriptions for international donor funded projects.

[3.6]. Each candidate road must then pass through three stages of examination. In the first stage, the Selection Committee, using the information established in 3.5, above, will determine if the road meets the following criteria:

- (1) The road must be located in an area containing soils of the IA, IP, IIA or IIP classifications for agricultural potential (exceptions may be made where otherwise justified for *asentamientos* or similar settlements where necessary additional inputs are assured, and also for short connecting links);
- (2) The agricultural area served by the road must be below 1,525 meters altitude in order to avoid erosion problems in the agricultural area except as Lender and Borrower may otherwise agree;

- (3) The road must connect with an all-weather transport network;
- (4) An alternative all-weather transport facility serving the same area does not exist, nor is one planned during the life of the Project;
- (5) The road is not a candidate for improvement beyond minimum all-weather standards during the life of the Project except in those cases where there is technical justification in order to assure the useful life of the road;
- (6) Based on preliminary estimates, it appears that the majority of the population is in the target group; and
- (7) The road shows a potential positive relation of the benefit/cost ratio.

3.7. If the candidate road meets all these selection criteria, a physical survey of the road and its surrounding areas will be carried out using a Survey Inspection Report agreed to by the Parties. The information obtained will be used to compare the candidate road or road network against the criteria for the second phase of the selection process. Stage two criteria are as follows:

- (1) The greater accessibility created by the road or road network will not have significant adverse effects on the environment or the local population;
- (2) The majority of the population living within the area of influence of the road or road network must be in the target group, and the majority of the land in that area must be in the exclusive use and occupancy of the target group; and
- (3) The candidate road's benefit/cost ratio is at least one.

3.8. If the candidate road or road network meets all these criteria, it moves to the third stage of the selection process. At this point the staff level of the Selection Committee will evaluate and recommend that the candidate road or roads be approved for funding. If the road or road network is approved, it will be placed according to its priority on a list of roads scheduled for construction and sent to AID with the respective documentation to demonstrate that the road or road network conforms to all selection criteria.

#### *Section 4. DESIGN*

4.1. In general, the roadway surface will be 5 meters wide with 0.5 meter shoulder on a 6-meter platform and with drainage ditches at least 50 cm. deep on each side. Where existing features limit the width of the right-of-way, both the road platform and surface will be 5 meters (no shoulders with drainage ditches of about 50 cm. depth on each side). To the extent possible, any borrow material required will be taken from the side ditches to avoid long haulage of fill for the road embankment. The basic standards and alignment will permit future improvements to higher road standards when and as economic conditions warrant. A 15-cm. wearing surface of local select granular material will be placed to a width of 5 meters over an improved subgrade and compacted to support an 8-ton axle load. Drainage will be provided by means of side ditches with frequent ditch turnouts, and transverse drainage by concrete pipe and box culverts as required to accommodate projected storm drainage runoff. For streambed crossings, extensive use will be made of concrete masonry pipe fords which lend themselves to labor-intensive construction methods.

4.2. It is expected that a major portion of the work will be performed by contract. Labor-intensive road construction will be emphasized on all Project-related activities. It will be a provision of all contracts that local unskilled labor and construction materials be utilized to the maximum extent possible. Mechanical road construction equipment to be procured under this Project will be limited to hand tools, drags and low bed carts except as the Parties may otherwise agree in writing.

4.3. Some roads may be built by either MOP or MIDA. MOP force account will be limited to bridge and ford construction or to activities which are either beyond the capacity of small local contractors or where MOP can perform the tasks much more economically.

[4.4]. The Technical Division of Engineering of MOP through its offices will provide inspection to assure the quality of work. It will also ensure that labor-intensive methods of construction are utilized to the extent agreed.

#### *Section 5. COMMUNITY PARTICIPATION IN ROAD MAINTENANCE AND CONSTRUCTION*

5.1. A new office called the Community Action Section to support labor-intensive work in maintenance and construction will be created within MOP.

5.2. The following step-by-step plan will be implemented in the first construction year. The method will be refined and modified as required each year thereafter to better fit existing or changing conditions.

(1) Communities in the first year construction areas will be contacted to identify the maintenance standards required and the level of effort of each community.

Each community enrolled in the program will be encouraged to list available labor in the area that could be used for workteams of laborers for road maintenance and as a labor manpower pool for contract and force account construction work.

(2) MOP will provide hand tools, financed by the Project, instruction in their safe and efficient use, and guidance regarding maintenance standards to be met.

(3) Maintenance of these roads will be accomplished through a self-help program to be implemented by MOP with contributions from the target communities. These contributions will amount to approximately 10% of the cost of maintaining and repairing local roadways and associated facilities. The MOP budget will fund the balance with equipment, materials and labor. Ultimately, MOP will have sole responsibility for maintaining these roads.

(4) Inspections of the roadways will be made periodically to assure that facilities meet established standards. This will assure current information on road conditions.

5.3. The Provincial Director of MOP will provide special assistance to the community through the assignment of heavy equipment and operators for the removal of severe road blockages or repair of highly deteriorated road sections.

5.4. The communities will require training in preventive maintenance, mostly on-the-job instruction. The training will be supported in so far as possible by audio visual aids demonstrating the proper use of hand tools and a definition of their task. This format may also be used to bring awareness to communities of the importance of the environment and familiarize the villages with endangered flora and fauna in their areas.

#### *Section 6. TECHNICAL ASSISTANCE*

6.1. Specific training needs were explored and a decision made to concentrate technical assistance in three specialties:

- (1) A materials engineer, approximately 24 person months, to provide on-the-job training in optimum use of local road construction materials. The advisor must possess experience in soils laboratory administration and quality control standards.
- (2) Sociologist or anthropologist, approximately 24 person months with experience in organizing and motivating communities in the maintenance of their roads and community works.
- (3) Environmentalist with an engineering background, approximately 12 person months, to review present MOP planning and construction procedures and recommend changes with regard to minimizing adverse effects on the environment.

6.2. In addition, approximately five person months of short-term technical assistance in the fields of measurement of environmental impact, community development and transportation economics are expected to be required during the life of the program as well as approximately 13 person months for training outside Panama in transportation economics and environment.

### Section 7. FINANCIAL PROCEDURES AND DISBURSEMENTS

7.1. Reimbursement for construction of roads will be based on a system of Fixed Amount Reimbursement for agreed upon engineering specifications for each individual road segment. (A road segment is the complete length of road which is to be upgraded or constructed, including drainage structures (culverts), but excluding bridges and fords.) Separate FAR prices will be established for the different levels of effort required to attain the desired standard for each individual road segment. Separate FAR prices will also be established on a linear meter basis for bridges and fords. Three different prices per kilometer (A, B and C) of road were established during project preparation. These prices will be subject to review at the time of initiating the first road segment for construction, and prices based on different levels of effort may be used.

7.2. Thereafter, prices will be reviewed annually or at such other time as the Parties may agree. This establishment and review of prices also pertains to bridges and fords. The total FAR cost for each road segment will be arrived at by: (a) determining the total number of kilometers within a segment required for each level of effort; (b) multiplying the kilometers or fractions of kilometers determined in (a) by their respective agreed upon FAR price, and (c) summing the amounts arrived at in (b).

7.3. Reimbursement will be based on the agreed upon fixed amount for the completed total road segment plus any bridges and/or fords, regardless of actual costs, unless otherwise agreed to in writing by AID.

### Section 8. FAR PROCEDURES

8.1. Even if identical or near identical road segments are located in the same area, it will still be necessary to establish a separate total FAR price for each segment and the FAR method will be applied to each individual road segment. An average FAR price will not be applied to any group of road segments.

8.2. MOP will be in charge of inspecting the work. However, AID will also make periodic inspections during construction.

8.3. As each road segment is completed, MOP will request AID to inspect it for final acceptance and MOP will request reimbursement for those segments which meet the agreed upon specifications.

8.4. All reimbursements for road construction under the FAR system will be made directly to a special account "MOP/AID Access Roads Construction" which will be established in the Banco Nacional de Panamá (BNP).

8.5. The requests for reimbursement will originate in the Technical Division of Engineering of MOP.

8.6. The FAR cost of each road segment will be shared between the GOP and AID on a 30/70 ratio. Under FAR, AID will reimburse an amount not to exceed 70% of the agreed upon fixed amount.

8.7. Advances under the FAR method will be calculated on the basis of agreed upon construction schedules to assure sufficient funds to maintain construction. Advances will not exceed 50% of the agreed upon total price for any road segment. All advances may be increased or decreased depending upon the rate of implementation of programmed activities.

8.8. If the FAR method of reimbursement is not used, AID will reimburse 70% of the total construction cost of each road segment. Reimbursement will be in accordance with the procedures established in Section 9. The amount of an advance will be determined by the quarterly projected expenditure requirements, and it may be increased or decreased depending on the rate of implementation.

8.9. If the FAR method of reimbursement is not used, AID will reimburse 70% of the total cost of all bridges and fords, and reimbursement will be made in accordance with

the procedures established in Section 9. The amount of an advance will be determined by the quarterly projected expenditure requirements, and it may be increased or decreased depending on the rate of implementation. The method of reimbursement for bridges and fords is not linked to a requirement for similar disbursement procedures for road construction.

#### *Section 9. STANDARD DOCUMENTATION REQUIREMENTS*

9.1. All procurement must conform with the guidelines set forth in attachments to Implementation Letter No. 1, with regard to source origin, bidding procedures, shipping requirements and other procurement practices.

9.2. The following documentation requirements apply to the MOP when requesting reimbursements directly from AID. Detailed description and/or explanation of the documentation will be included in attachments to Implementation Letter No. 1.

9.3. Contracts for technical assistance must be presented to AID for approval prior to execution. Requests for Reimbursement must be accompanied by the following:

- (1) Copy of all applicable contracts or agreements;
- (2) Copy of Contractor's invoice marked "PAID" or other evidence of payment, showing period covered and items claimed;
- (3) Copy of time and attendance reports or certification of responsible GOP official that contractor was in attendance as stated in invoice;
- (4) Voucher SF 1034;
- (5) Copy of any interim report required by the contract, and copy of final report prior to making final disbursement under the contract.

9.4. Requests for Reimbursement for procurement of local commodities or materials must be accompanied by the following:

- (1) Purchase Order;
- (2) Supplier's invoice marked "PAID" and/or evidence of payment;
- (3) Receiving Reports;
- (4) Certificate of Source and Origin signed by vendor;
- (5) Voucher SF 1034.

9.5. Requests for Reimbursement for purchase of commodities or materials imported for specific use of the Project will contain the same documentation listed in Section 9.4 and also the following:

- (1) Shipping documentation;
- (2) Supplier's Certificate and Contract Abstract AID Form 282.

9.6. Requests for Reimbursement for Construction Services must be accompanied by the documentation listed below. All contracts must be presented to AID in advance for their approval prior to execution.

- (1) Copy of Contractor's invoice marked "PAID" or other evidence of payment;
- (2) Certificates of Performance for Progress Payments and/or Final Payments;
- (3) Voucher SF 1034.

9.7. Requests for Reimbursement for Other Services will require similar documentation to that mentioned in the above paragraphs, including but not limited to the following:

- (1) Copy of any applicable contract or agreement;
- (2) Evidence of receipt of services;
- (3) Certificate of Source and Origin signed by vendor;
- (4) Evidence of payment and copy of invoice.

ADJUNTO I  
(ATTACHMENT I)

PLAN GENERAL DE FINANCIAMIENTO  
(OVERALL FINANCIAL PLAN)

(US \$000)

<i>Componente (Component)</i>	<i>AID</i>	<i>GOP</i>	<i>Total</i>
<b>Construcción (Construction)</b>			
Caminos ..... (Roads)	7,887	3,380	11,267
Puentes ..... (Bridges)	1,210	518	1,728
Vados ..... (Fords)	445	191	636
Sub-total	9,542	4,089	13,631
Administración y Supervisión de la Construcción ..... (Administration and Supervision of Construction)		1,636	1,636
<b>Mantenimiento (Maintenance)</b>			
Maquinaria del MOP ..... (MOP Machinery)		462	462
Mano de Obra ..... (Labor)		376	376
Inspección de Mantenimiento ..... (Maintenance Inspection)		42	42
Herramientas Manuales ..... (Hand Tools)	29		29
Equipo Especial ..... (Special Equipment)	10		10
Sub-total	39	880	919
<b>Asistencia Técnica (Technical Assistance)</b>			
Largo Plazo ..... (Long Term)	350		350
Corto Plazo ..... (Short Term)	35		35
Sub-total	385		385
Capacitación ..... (Training)	34		34
GRAND TOTAL	10,000	6,605	16,605



## ANNEX 2. STANDARD PROVISIONS

## AID Project Loan Agreement No. 525-T-048 — Rural Access Roads

*Definitions.* As used in this Annex, the "Agreement" refers to the Project Loan Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

*Article A. PROJECT IMPLEMENTATION LETTERS*

To assist Borrower in the implementation of the Project, Lender, from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

*Article B. GENERAL COVENANTS*

*Section B.1. CONSULTATION.* The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

*Section B.2. EXECUTION OF PROJECT.* The Borrower will:

- (a) Carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, approved by Lender pursuant to this Agreement.
- (b) Provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purpose of the Project.

*Section B.3. UTILIZATION OF GOODS AND SERVICES.* (a) Any resources financed under the Loan will, unless otherwise agreed in writing by Lender, be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Loan, except as Lender may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the AID Geographic Code Book as in effect at the time of such use.

*Section B.4. TAXATION.* (a) This Agreement and the Loan will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the Republic of Panama.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Loan, and any property or transactions relating to said contracts; or (2) any commodity procurement transaction financed under the Loan are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in the Republic of Panama, the Borrower will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Loan.

*Section B.5. REPORTS, RECORDS, INSPECTIONS, AUDIT.* The Borrower will:

- (a) Furnish Lender such information and reports relating to the Project and to this Agreement as Lender may reasonably request;
- (b) Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Loan. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three (3) years after the date of last disbursement by Lender; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and
- (c) Afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Loan.

*Section B.6. COMPLETENESS OF INFORMATION.* The Borrower confirms:

- (a) That the facts and circumstances of which it has informed Lender, or caused Lender to be informed in the course of reaching agreement with Lender on the Loan, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;
- (b) That it will inform Lender in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

*Section B.7. OTHER PAYMENTS.* Borrower and Lender affirm that no payments have been or will be received by any of their respective officials in connection with the procurement of goods or services financed under the Loan except fees, taxes, or similar payments legally established in the Republic of Panama.

*Section B.8. INFORMATION AND MARKING.* The Borrower will give appropriate publicity to the Loan and the Project as a program to which the United States has contributed, identify Project sites, and mark goods financed by Lender as described in Project Implementation Letters.

*Article C. PROCUREMENT PROVISIONS*

*Section C.1. SPECIAL RULES.* (a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the Republic of Panama will be deemed an eligible Offshore Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Loan will be of United States manufacture, except as Lender may otherwise agree in writing.

*Section C.2. ELIGIBILITY DATE.* 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, except as the Parties may otherwise agree in writing.

*Section C.3. PLANS, SPECIFICATIONS, AND CONTRACTS.* In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

- (a) The Borrower will furnish to Lender upon preparation:
  - 1) Any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Loan, including documentation relating to the prequalification and selection of contractors and to

the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished Lender on preparation.

- 2) Such documentation will also be furnished to Lender upon preparation, relating to any goods or services which, though not financed under the Loan, are deemed by Lender to be of major importance to the Project. Aspects of the Project involving matters under this sub-section (a) (2) will be identified in Project Implementation Letters.

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Loan will be approved by Lender in writing prior to their issuance, and their terms will include standards and measurements commonly used in the United States or Panama.

(c) Contracts and contractors financed under the Loan for engineering and other professional services, for construction services, and for such other services, equipment, or such materials as may be specified in Project Implementation Letters, will be approved by Lender in writing prior to execution of the contracts. Material modifications in such contracts will also be approved in writing by Lender prior to execution.

(d) 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 Lender.

*Section C.4. REASONABLE PRICE.* No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Loan. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

*Section C.5. NOTIFICATION TO POTENTIAL SUPPLIERS.* To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Loan, the Borrower will furnish Lender such information with regard thereto, and at such times, as Lender may request in Project Implementation Letters.

*Section C.6. SHIPPING.* (a) Goods which are to be transported to the Republic of Panama may not be financed under the Loan if transported either:

- 1) On an ocean vessel or aircraft under the flag of a country which is not included in AID Geographic Code 935 as in effect at the time of shipment; or
- 2) On an ocean vessel which Lender by written notice to the Borrower has designated as ineligible; or
- 3) Under an ocean or air charter which has not received prior Lender approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Loan, if such goods or persons are carried:

- 1) On an ocean vessel under the flag of a country not, at the time of shipment, identified under section 7.1 of the Agreement;
- 2) On an ocean vessel which Lender by written notice to the Borrower has designated as ineligible; or
- 3) Under an ocean vessel or air charter which has not received prior Lender approval.

(c) Unless Lender determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels:

- 1) At least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by Lender which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and
- 2) At least fifty percent (50%) of the gross freight revenue generated by all shipments financed by Lender 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 com-

mercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to any cargo transported from U.S. ports and also any cargo transported from non-U.S. ports, computed separately.

*Section C.7. INSURANCE.* (a) Marine insurance on goods financed by Lender which are to be transported to the Republic of Panama may be financed as an Offshore Cost under this Agreement provided:

- 1) Such insurance is placed at the lowest available competitive rate, and
- 2) Claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Borrower (or Government of Borrower) 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 Republic of Panama financed by Lender hereunder will be insured against marine risks and such insurance will 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.

(b) Except as Lender may otherwise agree in writing, the Borrower will insure, or cause to be insured, goods financed under the Loan imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Borrower under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Borrower for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in AID Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

*Section C.8. U.S. GOVERNMENT-OWNED EXCESS PROPERTY.* The Borrower agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Loan, should be utilized. Funds under the Loan may be used to finance the costs of obtaining such property for the Project.

#### *Article D. TERMINATION AND REMEDIES*

*Section D.1. CANCELLATION BY BORROWER.* The Borrower may, by giving Lender 30 days written notice, cancel any part of the Loan which has not been disbursed or committed for disbursement to third parties.

*Section D.2. EVENTS OF DEFAULT; ACCELERATION.* It will be an "Event of Default":

If Borrower shall have failed:

- (a) To pay when due any interest or installment of Principal required under this Agreement, or
- (b) To comply with any other provision of this Agreement, or
- (c) To pay when due any interest or installment of Principal or other payment required under any other loan, guaranty or other agreement between the Borrower or any of its agencies and Lender or any of its predecessor agencies. If an Event of Default shall have occurred, then Lender may give the Borrower notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:
  - 1) Such unrepaid Principal and accrued interest hereunder will be due and payable immediately, and
  - 2) The amount of any further disbursements made pursuant to then outstanding commitments to third parties or otherwise will become due and payable as soon as made.

*Section D.3. SUSPENSION.* If at any time:

- (a) An Event of Default has occurred, or
- (b) An event occurs that Lender determines to be an extraordinary situation that makes it impossible either that the purpose of the Loan will be attained or that the Borrower will be able to perform its obligations under this Agreement, or
- (c) Any disbursement by Lender would be in violation of the legislation governing Lender, or
- (d) The Borrower shall have failed to pay when due any interest, installment of principal or other payment required under any other loan, guaranty, or 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:

- 1) Suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the Borrower;
- 2) Decline to issue additional commitment documents or to make disbursements other than under existing ones; and
- 3) At Lender's expense, direct that title to goods financed under the Loan be transferred to Lender if the goods are from a source outside the Republic of Panama, are in a deliverable state and have not been offloaded in ports of entry of the Republic of Panama. Any disbursement made under the Loan with respect to such transferred goods will be deducted from Principal.

*Section D.4. CANCELLATION BY LENDER.* If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3, the cause or causes thereof have not been corrected, Lender may cancel any part of the Loan that is not then disbursed or irrevocably committed to third parties.

*Section D.5. CONTINUED EFFECTIVENESS OF AGREEMENT.* Notwithstanding any cancellation, suspension of disbursements, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder.

*Section D.6. REFUNDS.* (a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, Lender, notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Borrower to refund the amount of such disbursement in United States Dollars to Lender within sixty (60) days after receipt of a request therefor. The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

(b) Any refund under the preceding subsection, or any refund to Lender from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Loan, which refund relates to an unreasonable price for or erroneous invoicing of goods or services or to goods that did not conform to specifications, or to services that were inadequate, will:

- 1) Be made available first for the cost of goods and services required for the Project, to the extent justified, and
- 2) The remainder, if any, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan reduced by the amount of such remainder.

*Section D.7. NONWAIVER OF REMEDIES.* No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.