

CONFORMED COPY

A.I.D. Loan No. 525-T-041

LOAN AGREEMENT
Between
THE REPUBLIC OF PANAMA
and
THE UNITED STATES OF AMERICA
for
RURAL COOPERATIVE DEVELOPMENT

Dated: November 13, 1974

RECORD COPY

L O A N A G R E E M E N T dated November 13, 1974 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 in furtherance of the Alliance for Progress and pursuant to the Foreign Assistance Act of 1961, as amended, an amount not to exceed Eight Million One Hundred Thousand United States Dollars (\$8,100,000) ("Loan") to assist the Borrower in carrying out the Project referred to in Section 1.02 ("Project"). The Loan shall be used exclusively to finance United States dollar costs of goods and services required for the Project ("Dollar Costs") and local currency costs of goods and services required for the Project ("Local Currency Costs"). The aggregate amount of disbursements under the Loan is hereinafter referred to as "Principal".

SECTION 1.02. The Project. The Project shall consist of the establishment and operation of a cooperative revolving fund within the Banco de Desarrollo Agropecuario (BDA) to furnish credit to the Federation of Consumer Cooperatives (FECOPAN), the Federation of Agricultural Cooperatives (COAGRO) and the Federation of Credit Unions (FEDPA) and their affiliates and their members

and the provision of technical assistance to participating institutions and organizations, including the Ministry of Agricultural Development (MIDA), all to strengtnen the cooperative movement in Panama.

The Project is more fully described in Annex I, attached hereto, which Annex may be modified by the representatives of Borrower and Lender set forth in Section 9.02 in writing. The goods and services to be financed under the Loan shall be listed in the implementation letters referred to in Section 9.03 ("Implementation Letters").

SECTION 1.03. Use of Funds Generated by Other United States Assistance. The Borrower shall use for the Project, in lieu of any United States dollars that would otherwise be disbursed under the Loan to finance the Local Currency Costs of the Project, any currencies other than United States dollars that may become available to the Borrower after the date of this Agreement in connection with assistance (other than the Loan) provided by the United States of America to the Borrower to the extent and for the purposes that the Lender and the Borrower may agree in writing. Any such funds used for the Project shall reduce the amount of the Loan (to the extent that it shall not then have been disbursed) by an equivalent amount of United States dollars computed, as of the date of the agreement between Lender and Borrower as to the use of such funds, at the rate of exchange most favorable to the dollar then lawfully existing in the Republic of Panama.

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 7.04), and shall be computed on the basis of a 365-day year. Interest shall be payable semiannually. The first payment of interest shall be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by Lender.

SECTION 2.02. Repayment. The Borrower shall repay to Lender the Principal within forty (40) years from the date of the first disbursement hereunder in sixty-one (61) approximately equal semi-annual installments of Principal and interest. The first installment of Principal shall be payable nine and one-half (9 1/2) years after the date on which the first interest payment is due in 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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SECTION 2.03. Application, Currency and Place of Payment. 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 by U.S. Dollar check payable to the order of the Treasurer of the United States and remitted directly to: Agency for International Development, Cashier (SER/FM), Washington, D.C., 20523, U.S.A. Payment shall be deemed made when received by such Cashier.

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. In the light of the undertakings of the United States of America, and the other signatories of the Act of Bogota and the Charter of Punta del Este to forge an Alliance for Progress, 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 taking into consideration the relative capital requirements of the Republic of Panama and of the other signatories of the Act of Bogota and the Charter of Punta del Este.

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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 or of other counsel acceptable to Lender that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(b) A statement of the names of the persons holding or acting in the office of the Borrower specified in Section 9.02, and a specimen signature of each person specified in such statement;

(c) Evidence of the establishment of a Coordinating Committee to implement the Project, in the sense of monitoring and consulting on policy. This Committee is to be made up of representatives of:

- (i) Ministry of Agriculture Development (MIDA)
- (ii) Ministry of Planning and Economic Policy (MPPE)
- (iii) Ministry of Commerce and Industry (MCI)
- (iv) Agricultural Development Bank (BDA)
- (v) Federation of Agriculture Cooperatives of Panamá (COAGRO)

(vi) Federation of Consumer Cooperatives of Panama (FECOPAN) . and

(vii) Federation of Credit Cooperatives of Panama, R. L.
(FEDPA), and

the Lender shall be able to participate with a right to speak.

(d) An overall Time-Phased Implementation Plan for the Project. This plan will include inter alia: (i) description of the functions and responsibilities of the Coordinating Committee, (ii) the establishment of an evaluation framework to include project goals and time-phased outputs, (iii) the collection of baseline data.

(e) A detailed schedule for the provision of Borrower counterpart contribution to the Project, including the Federations' and Cooperatives' component thereof.

SECTION 3.02. Conditions Precedent to Disbursement for the Cooperative Revolving Fund. Prior to the issuance of any commitment document or to any disbursement under the Loan for the Cooperative Revolving Fund component of the Loan, Borrower shall furnish in form and substance satisfactory to Lender:

(a) Evidence of the establishment of a separate Cooperative Revolving Fund in the BDA from which funds will be lent exclusively to FEDPA, COAGRO, FECOPAN and their affiliates.

(b) A statement of the general lending policies, procedures, and priorities of the Cooperative Revolving Fund, including the terms and conditions to be included in loans to FEDPA, COAGRO, FECOPAN, and their affiliates.

(c) A plan for utilizing the resources of the Cooperative Revolving Fund to maximize the benefits to the lower income small farmer.

SECTION 3.03. Conditions Precedent to Disbursement for Infrastructure. Prior to the making of any subloan from the Cooperative Revolving Fund for infrastructure and related equipment, Borrower shall furnish or cause to be furnished in form and substance satisfactory to Lender, a master plan agreed to between COAGRO and FECOPAN for the coordinated use, when feasible, of all proposed infrastructure and related equipment to be financed under the Loan.

SECTION 3.04. Terminal Dates for Meeting Conditions Precedent to Disbursement.

(a) If all of the conditions specified in Section 3.01 shall not have been met within 90 days from the date of this Agreement, or such later date as the parties may agree to in writing, Lender, with previous written notice to the Borrower, may terminate this Agreement. Upon the giving of such notice, this Agreement and all obligations of the parties hereunder shall terminate.

(b) If all of the conditions specified in Section 3.02 shall not have been met within 180 days from the date of this Agreement, or such later date as Lender may agree to in writing, Lender, at its option, may cancel the then undisbursed balance of the amount of the Loan and/or may terminate this Agreement by giving written notice to

the Borrower. In the event of a termination, upon the giving of notice, the Borrower shall immediately repay the Principal then outstanding and shall pay any accrued interest and, upon receipt of such payments in full, this Agreement and all obligations of the parties hereunder shall terminate.

SECTION 3.05. Notification of Meeting of Conditions Precedent to Disbursement. Lender shall notify the Borrower upon determination by Lender that the conditions precedent to disbursement specified in Section 3.01 and, as the case may be, 3.02 and 3.03 have been met.

ARTICLE IV

General Covenants and Warranties

SECTION 4.01. Execution of the Project.

(a) The Borrower shall carry out the Project with due diligence and efficiency, and in conformity with sound engineering, construction, financial, and administrative practices.

(b) The Borrower shall cause the Project to be carried out in conformity with all of the plans, specifications, contracts, schedules, and other arrangements, including those submitted under Article III, and with all modifications therein, approved by Lender pursuant to this Agreement.

SECTION 4.02. Funds and Other Resources to be Provided by Borrower. Without limitation by Section 5.05 herein, the Borrower shall provide promptly as needed all funds, in addition to the Loan, and all other resources required for the punctual and effective carrying out of the Project.

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

SECTION 4.04. Management Operations. The Borrower shall provide qualified and experienced management for the Project and it shall assign, employ and train such staff as may be appropriate and sufficient for the

administration of all phases of the Project. This management shall include a project manager. The staff shall include employees in the BDA to manage and administer the cooperative revolving fund, employees in MIDA Department of Cooperatives to audit the activities of FEDPA, COAGRO and FECOPAN and their affiliates, employees in MIDA Department of Cooperatives to plan for and carry out continuing evaluations of the program and agricultural technicians employed by MIDA and assigned to FEDPA and COAGRO to render technical assistance to affiliated cooperatives and their members.

SECTION 4.05. Taxation. This Agreement, the Loan, and any evidences 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 within the Republic of Panama. To the extent that (a) any contractor, including any consulting firm, any personnel of such contractor financed hereunder, and any property or transaction relating to such contracts and (b) any commodity procurement transaction financed hereunder, are not exempt from identifiable taxes, tariffs, duties, and other levies imposed under laws in effect in the Republic of Panama, the Borrower shall, as and to the extent prescribed in and pursuant to Implementation Letters, pay or reimburse the same under Section 4.02 of this Agreement, with funds other than those provided under the Loan, and in addition to those provided pursuant to Section 5.05 herein.

SECTION 4.06. 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 so long as the rights of third parties are not impaired.

(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 4.07. 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 its 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 the Borrower's obligations under this Agreement.

SECTION 4.08. Commissions, Fees, and Other Payments.

(a) Borrower warrants and covenants that in connection with obtaining the Loan, or taking any action under or with respect to

this Agreement, it has not paid, and will not pay or agree to pay, nor to the best of its 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 the Borrower's full time officers and employees or as compensation for bona fide professional, technical, or comparable services to which it is a party or of which it has knowledge (indicating whether such payment has been made or is to be made on a contingent basis), and if the amount of any such payment is deemed unreasonable by Lender, the same shall be adjusted in a manner satisfactory to Lender.

(b) The Borrower warrants and covenants that no payments have been or will be received by the Borrower, or any official of the Borrower, in connection with the procurement of goods and services financed hereunder, except fees, taxes, or similar payments legally established in the Republic of Panama.

SECTION 4.09. 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, throughout the period at such reasonable intervals as the Lender may request with prior notice, but at least annually. 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 4.10. Reports. The Borrower shall furnish to Lender such information and reports relating to the Loan, the fund, and to the Project as Lender may reasonably request with prior notification to the Borrower.

SECTION 4.11. Inspections. The authorized representatives of Lender shall have the right at all reasonable times, with prior notification to the Borrower or the Cooperative to be inspected, 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.

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ARTICLE V

Special Covenants and Warranties

SECTION 5.01. Project Evaluation. During the course of the Project and at least once a year, Borrower and Lender with the Coordinating Committee shall conduct evaluations of the progress of the Project and shall reprogram project activities in the light of these evaluations.

SECTION 5.02. Subloan Approvals. Except as the Borrower and the Lender may otherwise agree in writing, any subloan from the Cooperative Revolving Fund in excess of \$100,000 shall require the prior written approval of the Lender.

SECTION 5.03. Training. The Borrower shall establish training courses for managers and accountants which will provide a source of managerial talent for the affiliated cooperatives and federations receiving credit hereunder.

The Borrower shall also establish training courses for cooperative leaders, e.g. directors and vigilance committee members, which would provide these individuals with an understanding of the problems involved in managing cooperatives.

SECTION 5.04. Revolving Fund. All repayments of principal and interest to the Cooperative Revolving Fund shall be utilized throughout the repayment period of the Loan for activities associated with benefiting the lower income small farmer through the cooperative movement. Funds for repayment of this loan will be derived from other sources.

SECTION 5.05. Borrower Contribution. During the course of the Project, BDA will replenish the revolving fund to the extent that losses from the revolving fund are incurred. In addition thereto Borrower shall contribute or cause to be contributed the equivalent of at least \$3,655,000 to the Project during the disbursement period.

SECTION 5.06. Audit. An Audit Section shall be established within MIDA responsible for auditing the activities of FEDPA, COAGRO, FECOPAN, and their affiliates.

SECTION 5.07. Sublending Policies of COAGRO Affiliates. No subloan shall be made from the Cooperative Revolving Fund for relending by an affiliate of COAGRO until Lender has approved the lending policies, procedures and priorities of said COAGRO affiliate.

SECTION 5.08. Sublending Policies of FEDPA. No subloan shall be made from the Cooperative Revolving Fund to FEDPA or to any of its affiliates until Lender has approved the lending policies, procedures and priorities to be followed by FEDPA and its affiliates.

SECTION 5.09. Subloans for Infrastructure. Unless Lender otherwise agrees in writing, subloans from the Cooperative Revolving Fund for infrastructure and related equipment shall conform to the Master Plan which provides for the coordinated use, when feasible, of infrastructure and related equipment.

ARTICLE VI

Procurement

SECTION 6.01. Procurement from Selected Free World Countries.

Except as Lender and Borrower may otherwise agree in writing, and except as provided in subsection 6.09(c) with respect to marine insurance, disbursements made pursuant to Section 7.01 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 ("Selected Free World 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. All ocean shipping financed under the loan shall have both its source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time of shipment.

SECTION 6.02. Procurement from the Republic of Panama. Disbursements made pursuant to Section 7.02 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 6.03. Eligibility Date. Except as 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 6.04. Goods and Services Not Financed Under 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 6.05. Implementation of Procurement Requirements.

The definitions applicable to the eligibility requirements of Sections 6.01, 6.02, and 6.04 will be set forth in detail in Implementation Letters.

SECTION 6.06. Procurement Approvals.

(a) All bid documents and documents related to the solicitation of proposals relating to goods and services financed under the Loan to be procured by BDA and MIDA shall be approved by Borrower and 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 United States standards and measurements, except as Borrower and Lender may otherwise agree in writing.

(b) Except as otherwise may be agreed in writing, the following contracts financed under the Loan shall be approved by Lender in writing prior to their execution but this does not authorize the disapproval of contract terms which conform to bidding documents previously approved under 6.06(a).

(i) contracts of MIDA or BDA for professional services,

- (II) contracts of MIDA or BDA for equipment and materials,
and
- (III) all contracts of a sub-borrower to be financed from
a subloan which exceeds \$100,000.

In the case of any of the above contracts for professional services, Lender shall also have the right of prior approval, to be given in writing, of the contractor and such contractor personnel as Lender may specify. Material modifications in any of such contracts and changes in any of such personnel shall also be approved by Lender in writing prior to their becoming effective.

(c) Lender shall also have the right of prior approval, to be given in writing, of 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.

SECTION 6.07. Reasonable Prices. No more than reasonable prices shall be paid for any goods or services financed, in whole or in part, under the Loan.

SECTION 6.08. Employment of Non-Selected Free World Nationals Under Construction Contracts. No construction contract shall be eligible for financing with loan funds if more than 20% of the personnel to be employed thereunder come from countries other than Panama or the other eligible source countries listed in Code 941 of the A.I.D. Geographic Code Book as in effect at the time the construction contract is entered into.

SECTION 6.09. Shipping and Insurance.

(a) Selected free world goods financed under the Loan shall be transported to the country of the Borrower on flag carriers of any country included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of shipment.

(b) Unless Lender shall determine that privately-owned United States flag commercial vessels are not available at fair and reasonable rates for such vessels,

(i) at least fifty percent (50%) of the gross tonnage of Selected Free World goods financed under the Loan and transported on ocean vessels from United States ports (computed separately for dry bulk carriers, dry cargo liners and tankers) shall be transported on privately-owned United States-flag commercial vessels; and at least fifty percent (50%) of the gross freight revenue generated by ocean shipments of Selected Free World Goods

financed under the Loan and transported on dry cargo liners from United States ports shall be paid to or for the benefit of privately-owned United States-flag commercial vessels; and

- (ii) at least fifty percent (50%) of the gross tonnage of all Selected Free World Goods financed under the Loan and transported on ocean vessels from non-United States ports (computed separately for dry bulk carriers, dry cargo liners and tankers) shall be transported on privately-owned United States-flag commercial vessels; and at least fifty percent (50%) of the gross freight revenue generated by ocean shipments of Selected Free World Goods financed under the Loan and transported on dry cargo liners from non-United States ports shall be paid to or for the benefit of privately-owned United States-flag commercial vessels.

No goods may be transported on any ocean vessel or aircraft (i) which Lender, in a notice to Borrower, has designated as ineligible to carry Lender-financed goods or (ii) which has been chartered for the carriage of Lender - financed goods, unless such charter has been approved by Lender.

- (c) Marine insurance on Selected Free World Goods may be financed under the loan with disbursements made pursuant to Section

7.01, provided (i) such insurance is placed at the lowest available competitive rate in 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 freely convertible currency. If in connection with the placement of marine insurance on shipments financed under United States legislation authorizing assistance to other nations, the country of the Borrower, by statute, decree, rule or regulation, favors any marine insurance company of any country over any marine insurance company authorized to do business in any state of the United States of America, Selected Free World Goods financed under the Loan shall, during the continuance of such discrimination, be insured against marine risk in the United States of America with a company or companies authorized to do a marine insurance business in any state of the United States of America.

(d) The Borrower shall insure, or cause to be insured, all Selected Free World 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, shall insure the full value of the goods, and shall be payable in the currency in which such goods were financed or in any freely convertible currency. Any indemnification received by the Borrower under such insurance shall be used to re-

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place 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 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 6.10. 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 6.11. 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 6.12. Information and Marking. Borrower shall give publicity to the Loan and the Project as a program of United States aid in furtherance of the Alliance for Progress, identify subproject sites, and mark goods financed under the Loan, as prescribed in Implementation Letters.

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ARTICLE VII

Disbursements

SECTION 7.01. Disbursement for United States Dollar 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 Dollar 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 7.02. Disbursement for Local Currency Costs. Upon satisfaction of conditions precedent, the Borrower may, from time to time, request disbursement by Lender of local currency for Local Currency Costs of goods and services procured for the Project in accordance with the terms and conditions of this Agreement by sub-

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mitting to Lender such supporting documentation as Lender may prescribe in Implementation Letters. Lender shall make such disbursements from local currency of the country of the Borrower owned by the U.S. Government and obtained by Lender with United States dollars. The United States dollar equivalent of the local currency made available hereunder will be the amount of United States dollars required by Lender to obtain the currency of the country of the Borrower.

SECTION 7.03. 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 7.04. Date of Disbursement. Disbursements by Lender shall be deemed to occur, (a) in the case of disbursements pursuant to Section 7.01, on the date on which Lender makes a disbursement to the Borrower, to its designee, or to a banking institution pursuant to a Letter of Commitment, and (b) in the case of disbursements pursuant to Section 7.02, on the date on which Lender disburses the local currency to the Borrower or its designee.

SECTION 7.05. Terminal Date for Disbursement. Except as 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 7.03, or amendment thereto shall be issued

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in response to requests received by Lender after December 31, 1977, and no disbursement shall be made against documentation received by Lender or any bank described in Section 7.01 after June 1, 1978. Lender, at its option, may at any time or times after December 31, 1977, reduce the Loan by all or any part thereof for which documentation was not received by such date.

ARTICLE VIII

Cancellation and Suspension

SECTION 8.01. Cancellation by the Borrower. The Borrower may, with the prior written consent of Lender by written notice to Lender, cancel any part of the Loan (i) which, prior to the giving of such notice, 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 8.02. 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 8.03. Suspension of Disbursement. In the event that at any time:

- (a) An Event of Default has occurred;
- (b) An event occurs that 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 legislation governing Lender; or
- (d) The Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies;

Then Lender may, at its option:

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

(iv) at Lender's expense, direct that title to 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 disbursements made or to be made under the Loan with respect to such transferred goods shall be deducted from Principal.

SECTION 8.04. Cancellation by Lender. Following any suspension of disbursements pursuant to Section 8.03, 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 8.05. 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 8.06. 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 (30) 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 8.07. 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 8.02 may be charged to the Borrower and reimbursed to Lender in such manner as Lender may specify.

SECTION 8.08. Nonwaiver of Remedies. No delay in exercising or omission to exercise any right, power, or remedy accruing to Lender under this Agreement shall be construed as a waiver of any of such rights, powers, or remedies.

ARTICLE IX

Miscellaneous

SECTION 9.01. 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, telegrams, cable, or radiogram at the following addresses:

TO BORROWER:

Mail Address: Ministry of Agricultural Development
Apartado 5390
Panama 5, Panama

Cable Address: MIDA
Panama

TO LENDER:

Mail Address: United States Agency for International
Development
Apartado 1099
Panama 5, Panama

Cable Address: USAID
American Embassy
Panama

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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 may otherwise request in writing.

SECTION 9.02. Representatives. For all purposes relative to this Agreement the Borrower will be represented by the individual holding or acting in the office of Minister of Agricultural Development 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 individual 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 a representative's name and specimen signature in form and substance satisfactory to Lender. Until receipt by Lender of written notice of revocation of the 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 9.03. 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 will alter the terms of this Agreement.

SECTION 9.04. 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 9.05. 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:

UNITED STATES OF AMERICA:

BY: _____
Miguel A. Sánchez
Minister of Finance and
Treasury

BY: _____
Alexander Firfer
Director, Agency for
International Development
Mission to Panama

BY: _____
Gerardo González
Minister of Agricultural
Development

BY: _____
Alvaro Vernaza
Manager, Banco de Desarrollo
Agropecuario

ANNEX I

Loan 525-T-041

The Project is to develop, strengthen and expand the Panamanian Cooperative Movement. The Project will directly assist the Federation of Consumer Cooperatives (FECOPAN), the Federation of Agricultural Cooperatives (COAGRO) and the Federation of Credit Unions (FEDPA) sometimes referred to or called secondary cooperatives or federations and their affiliated coops (sometimes referred to as primary cooperatives or affiliates) to become more responsive to the needs of their affiliates and their members and to enable both the primary and secondary cooperatives to expand their respective membership and to encourage inclusion of lower income farmers not now affiliated with any cooperative.

The Project will consist of two parts: the first, will provide loans through the Cooperative revolving fund to primary and secondary coops and through them to their members; and the second, will provide technical assistance. Resources will be provided by the loan, the Government, and the cooperatives themselves. The allocation of resources for the entire project is:

	<u>SOURCE (Thousands of \$)</u>			
	<u>AID</u>	<u>BDA+</u> <u>MIDA</u>	<u>COOPS</u>	<u>TOTAL</u>
<u>Relending Funds (BDA):</u>				
FEDPA and Affiliates	2,000	-	200*	2,200
COAGRO and Affiliates	4,000	-	400*	4,400
FECOPAN & Affiliates	750	500	125*	1,375
Sub-Total	<u>6,750</u>	<u>500</u>	<u>725</u>	<u>7,975</u>
Administrative Costs	-	850	-	850
Technical Assistance and Training	1,350	1,080	500	2,930
GRAND TOTAL	<u>8,100</u>	<u>2,430</u>	<u>1,225</u>	<u>11,755</u>

*These figures are not a cooperative contribution to the revolving fund but the contribution of the cooperatives from their own funds to the activity which will be financed from the revolving fund.

A general time phased implementation plan will be prepared and agreed upon by all parties which will be followed in the execution of the project. The plan will provide for the procurement of equipment needed by those providing technical assistance so that it will be available when needed. The plan, unless otherwise agreed in writing, will also provide for the timely procurement of external technical assistance to MIDA, BDA to COAGRO and FECOPAN.

1. Cooperative Development Revolving Fund

The first component of the Project will consist of the establishment and operation of a "Cooperative Revolving Fund" in the Agricultural Development Bank (BDA). Resources for the Cooperative Revolving

Fund will be contributed by both AID (\$6.75 million) and the BDA (\$0.5 million). The resources of the cooperative revolving fund will be relented to FECOPAN, COAGRO and FEDPA, to their affiliated cooperatives and through FEDPA affiliates and COAGRO affiliates to individual members. In its turn FEDPA will grant loans to its affiliated cooperatives. The fund will finance no more than 90% of the cost of any activity. The Federation or Cooperative will finance from its own resources (i.e. resources not borrowed from BDA or AID) the remaining 10% (or more) of the activity. (Sublending to members by COAGRO affiliates and FEDPA affiliates is to be considered an activity as the term is used herein).

The statement of general lending policies, procedures and priorities of the cooperative revolving fund issued pursuant to Section 3.02 of the Loan Agreement will include but will not be limited to the requirements set forth in the loan agreement itself and the following:

1. Limits on the amount to be lent to any primary cooperative and to any one borrower.
2. Procedures to insure that loans are made only to primary cooperatives which have capable managers.
3. Procedures to assure ultimate borrowers follow good business practices in procurement and pay no more than reasonable prices for goods and services.
4. Procedures to insure the collection of pertinent base line and evaluative data as part of the application for loans.

5. Procedures to insure that sound engineering practices are used by ultimate borrower in projects involving construction.
6. Procedures to insure that sub-loans in agricultural production are made under this project only to those sub-borrowers who are receiving adequate technical assistance from an agricultural technician.
7. Procedures to insure that projects to be financed are reviewed to determine financial and technical feasibility.
8. A prohibition against using loan funds for the production or processing of cotton or tobacco.
9. A system of aging accounts receivable and writing off bad debts.
10. A system for field checks to insure proper use is being made of revolving fund funds.

The financial budget is summarized as follows:

	SOURCE (Thousands of \$)				TOTAL
	AID	BDA	MIDA	COOPS	
<u>Relending Funds (BDA)</u>	<u>6,750</u>	<u>500</u>	<u>-</u>	<u>725</u>	<u>7,975</u>
FEDPA & Affiliates	2,000	-	-	200	2,200
COAGRO & Affiliates					
Production Credits	1,450	-	-	145	1,595
Infrastructure and Equipment	1,100	-	-	110	1,210
Working Capital	1,450	-	-	145	1,595
FECOPAN & Affiliates					
Infrastructure and Equipment	500	-	-	50	550
Working Capital	<u>250</u>	<u>500</u>	<u>-</u>	<u>75</u>	<u>825</u>

Relending to COAGRO and its affiliated coops

Up to \$4.0 million of funds from the "cooperative revolving fund" will be made available to COAGRO and its affiliated cooperatives, at 5% per annum. Loan funds made available to COAGRO and its affiliates will be used to finance the following kinds of activities in the following approximate amounts.

	<u>COAGRO</u>	<u>Affiliated Coops</u>	<u>Total</u>
1. Production Credit	---	1,450,000	1,450,000
2. Working Capital	480,000	970,000	1,450,000
3. Equipment/Infrastructure	<u>300,000</u>	<u>800,000</u>	<u>1,100,000</u>
	\$ 780,000	\$ 3,220,000	\$ 4,000,000

These amounts may be varied by 10% as long as the \$4,000,000 total is not changed, except as may be agreed in writing by the Borrower and Lender. The borrowing primary cooperative or federation will finance at least 10% of each project from its own equity resources.

(a) The \$1.45 million of production credit to primary cooperatives and the 10% or more of the borrowing cooperative's equity funds will be re-lent to primary cooperative members or groups of members to finance agricultural inputs for crop and livestock production projects or to finance directly such production projects undertaken by a primary cooperative itself. The items to be financed will include production inputs such as: farm implements, labor, fertilizers, pesticides, improved seed, livestock purchases, artificial insemination, but may not include land. The rate of interest will be 5% per annum to a Cooperative, and the primary cooperatives will relend to the individual borrowers or groups at 12% per annum.

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(b) The \$1.1 million for equipment and infrastructure plus the cooperative's equity will be used to finance investments in fixed assets by either the federation or the primary cooperatives. The items to be financed include multipurpose warehousing, processing equipment, workshops, cold storage facilities, refrigeration equipment, office equipment, vehicles and farm machinery. Interest rates will be 5% per annum.

(c) The working capital component (\$1.45 million) and the cooperative's equity will be used by the federations and the affiliated cooperatives to finance inventories sold through COAGRO's affiliates' stores, administrative expenditures (such as the salary expenses of a coop manager, accountant and agriculturalists) and purchasing and marketing expenditures attendant to COAGRO's marketing operation. Interest rates will be 5% per annum.

Relending to FEDPA and its Affiliates

Up to \$1,500,000 of funds from the BDA cooperative revolving fund will be made available to FEDPA at an interest rate of 5% per annum for relending to FEDPA's rural affiliates.^{1/} Another \$500,000 of the loan funds may be loaned to those affiliates directly by BDA under the same terms and conditions as FEDPA lends to its affiliates but only after FEDPA has been given the right of first refusal. The difference between the rate BDA charges FEDPA for loans to it from the revolving fund and the rate of interest charged to FEDPA affiliates and all other charges will accrue to FEDPA. FEDPA affiliates borrowing from the revolving fund will have to capitalize FEDPA as though they were borrowing from

^{1/} Rural affiliates as used herein excludes affiliates located in urban areas i.e. those cities having over 30,000 population according to the 1970 census.

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FEDPA. In turn all these funds will be relent to individual credit union members. Thus up to \$2.0 million of A.I.D. loan funds will be made available to members of FEDPA's rural affiliates for productive purposes. To complement these funds, the FEDPA affiliates will contribute from their own resources 10% of total project costs, or \$200,000. Together these funds will be used to finance agricultural inputs for crop production and livestock operations, farm machinery, working capital, and equipment for rural businesses.

The interest rate to the ultimate borrower under this activity will be 12% per annum.

Relending to FECOPAN and its affiliates

Up to \$1,250,000 of the funds in the revolving fund will be available for relending to FECOPAN and its affiliates. \$500,000 of this will be contributed by the Borrower and up to \$750,000 may come from this loan. AID loan funds can be relent to FECOPAN and its cooperatives located in rural areas^{1/} for working capital (\$250,000) and infrastructure (\$500,000). The borrowing primary cooperative or federation will finance at least 10% of each project from its own equity. The \$1,250,000 will be used to finance the following types of activities:

Infrastructure which consists of warehousing, processing equipment, refrigeration and cold storage equipment,

^{1/} Rural areas as used herein includes towns having less than 30,000 persons according to the 1970 census.

vehicles, office and store equipment, and store construction; working capital which may be used for inventories of consumer goods, administrative expenses and expenditures for marketing and distribution. These funds will be lent by the BDA to FECOPAN or its affiliates. The interest rate on such lending will be 5% per annum.

The estimated apportionment of funds under this activity may be varied by 10% as long as no more than \$250,000 of AID loan funds is used for working capital and the total limit of \$1,250,000 is not exceeded except as may be agreed in writing by the borrower and lender. This budget is as follows:

	<u>FECOPAN</u>	<u>Affiliated Coops</u>	<u>Total</u>
Working Capital	\$300,000	359,000	659,000
Equipment and Infrastructure	<u>211,000</u>	<u>380,000</u>	<u>591,000</u>
	\$ 511,000	\$ 739,000	\$1,250,000

BDA Contributions to the Revolving Fund

In addition to the direct capitalization of the fund with \$500,000 the BDA will replenish the fund with other resources to the extent that losses resulting from defaults are incurred by the revolving fund. In addition to the loss repayments and the \$500,000 mentioned above, the BDA will contribute \$850,000 in goods and services towards the administration of the revolving fund over the first 3 years of the project (i.e. from the date of the first disbursement). In the event that goods and services of this magnitude are not used for administrative support costs of the revolving fund the GOP agrees to make the difference available in cash to the revolving fund for relending.

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2. Institutional Development

The second component of the Project will address the longer range objectives of institutional development. \$2,930,000 will be provided to strengthen the institutional capacity of the three Federations, the Agricultural Development Bank (BDA) and the Department of Cooperatives of the Ministry of Agriculture (MIDA) so they will be able to offer improved services to their respective clients. Of this \$2,930,000, \$1,350,000 will be provided by loan funds. \$1,080,000 will be provided by the Government and \$500,000 by the cooperatives.

A time phased technical assistance plan with various components will be developed to strengthen the GOP institutions dealing with cooperatives and to help each federation improve its operations.

(1) External Technical Assistance

At the national level, the project envisions utilizing 205 man-months of foreign technical assistance in response to the above needs. 96 man-months of technical assistance will be provided to MIDA's Department of Cooperatives, 12 man-months to BDA's Department of Cooperative Credit, 37 man-months to COAGRO and 60 man-months to FECOPAN. The cost of this activity is estimated at \$860,000; AID loan funds will support \$640,000 of these costs (630,000 for technical and up to \$10,000 for supporting equipment). MIDA will provide at least 288 man-months of counterpart time. These counterparts

will be permanent employees of the MIDA Department of Co-operatives.(DINACCOOP). MIDA will also provide 2 full time secretaries for 3 years and support facilities including transportation having a value of no less than \$220,000. BDA, COAGRO and FECOPAN will also furnish counterparts and facilities for the technicians assigned to assist them. The following proposed services of loan financed technicians are to be programmed by the following agencies:

1. MIDA Department of Cooperatives
 - 18 man/months - Agricultural Credit and Financial Systems.
 - 18 man/months - Rural Administration and Farm Management
 - 36 man/months - Financial and Mgt. Auditing
 - 12 man/months - Short Term Consultants
 - 12 man/months - Data gathering and Evaluation
2. BDA
 - 12 man/months - Cooperative Credit
3. COAGRO
 - 15 man/months - General Coop. Admin. including assistance in establishing technical advisory services in credit and products.
 - 10 man/months - Procurement and Distribution
 - 12 man/months - Production Marketing
4. FECOPAN
 - 36 man/months - Coop Administration/Financial Systems
 - 24 man/months - Procurement, Inventory Control and Distribution.

(2) Regulatory Functions

An Audit Section is to be established within the MIDA Department of Cooperatives (DINACCOOP) to audit COAGRO, FEDPA, FECOPAN and their affiliates. The three year development costs to institutionalize this program is estimated at \$205,000; AID will finance up to \$160,000 of this amount and MIDA will contribute at least \$45,000. The Loan funds may be used to pay five auditors' salaries and equip the audit section. After the third year, all costs will be assumed by the GOP.

(3) Data Gathering and Evaluation

MIDA will establish and equip a section within the Department of Cooperatives which will be responsible for:

- (i) Gathering and recording all appropriate base line data and data of activities under this loan.
- (ii) Preparing and submitting all progress reports requested by the Lender.
- (iii) The completion of evaluations requested by Lender or Borrower. AID loan funds will provide 12 man-months of technical assistance to this newly established section.

(4) Agronomic and Credit Assistance to the Local Cooperatives

The Lender and Borrower agree that the core of the technical capacity of the local cooperatives will depend on the staff of permanent, full-time Field Production Agents who will be agri-

cultural technicians with training and experience in credit and production techniques and an intimate knowledge of the problems faced by the small farmer. As an integrated part of the production sub-lending activity of the loan, MIDA will provide the full time services of 60 production agents, 15 in year 1, 25 additional in year 2, and the final 20 in year 3. These agents and loan funded vehicles for their transportation will be assigned, (by MIDA, on a full time basis, in accordance with the Coordinating Committee's recommendation) to COAGRO and to FEDPA who will in turn reassign them to specific affiliated cooperatives or clusters of cooperatives according to their need for technical assistance.

The total budget for this program for years 1 through 3 will be \$725,000; AID will finance dollar commodity procurement of \$175,000, MIDA will provide \$440,000 to cover the salaries of the Production Agents, and the federations will contribute \$110,000 for other supporting costs. Additional commodity procurement to support the technicians including additional vehicles will be provided by the Federations in quantities set forth in the implementation plan. Nothing herein shall prohibit the Federations from recovering these costs from the cooperatives.

(5) Cooperative Education

MIDA's Department of Cooperatives will provide, in close coordination with the three federations, training for cooperative managers, accountants, directors, and committeemen. This

training will be of two types. The first type of training will be given by two Mobile Training Teams described below. It will consist of short 2 week courses to acquaint cooperative leaders with fundamental principles of cooperative management and organizations including such subjects as financial accounting practices, marketing activities, inventory control, membership promotion and education, mobilization of savings, credit policies, distribution of farm supplies and other related endeavors. It is expected that approximately 3,500 cooperative leaders will receive such training over the next 3 years.

MIDA will establish two mobile teams to give this training. Each team will be composed of four instructors and a coordinator. Each team will spend as much time in the field instructing as possible but a minimum of 150 days per member per year is anticipated. The total cost of the Mobile Teams over the 3 year life of the project is estimated at \$400,000 of which AID loan funds will cover \$25,000 for vehicles and commodities; MIDA will provide \$375,000 for salaries and supporting costs.

In addition to the costs of the Mobile Training Teams, it is estimated that expenses for the course participants will total approximately \$350,000. The GOP will fund \$175,000 toward these expenses and the primary cooperatives and/or their participating officers will contribute \$175,000 for the balance of participant attendance costs.

The second type of training, to be given by MIDA Department of Cooperatives, will be a rural managers' training program and accountants' program directed at professional cooperative managers and accountants. The managers' program will be extensive and intensive lasting about 3 to 8 months directed at high school graduates having the potential and desire to manage cooperative businesses. The accountants' program will last one month to train persons with accounting degrees in cooperative accounting.

Since a major problem confronting cooperatives is the scarcity of capable management to handle the administrative and accounting functions and resolving the problem is of utmost importance if the cooperative movement is to achieve dynamic growth, MIDA will use loan proceeds to subsidize the training costs and salaries of 40 managers and 30 accountants to be assigned to rural cooperatives which do not have competently trained management.

This MIDA/AID/Loan support will be a three-year decreasing subsidy component, covering the salaries of these cooperative managers/accountants. The subsidy funds will flow through the federations to maintain the integrity of the federated system. It is anticipated that this trained personnel will have proven their worth to the cooperatives and will be entirely funded by the cooperatives by the fourth year of the program as indicated in the tables below:

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	<u>RATIO OF SUBSIDY</u>			<u>TOTAL</u>
	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>	
Loan Funds	100%	56%	30%	
Primary Cooperatives	<u>0</u>	<u>44%</u>	<u>70%</u>	
Total	100%	100%	100%	
Loan Funds	\$ 188,000	\$ 106,000	\$ 56,000	\$ 350,000
Primary Cooperatives	<u> </u>	<u>82,000</u>	<u>133,000</u>	<u>215,000</u>
Total	\$ 188,000	\$ 188,000	\$ 189,000	\$ 565,000

Total costs of this activity are \$565,000, AID loan funds will cover a decreasing salary and training subsidy program amounting to \$350,000. Of this, \$45,000 may be used for training costs. The Primary Cooperatives will contribute at least \$215,000 in an ascending ratio for salary costs.

The estimated budget for this institutional development follows:

	<u>AID</u>	<u>GOP</u>	<u>COOPS</u>	<u>TOTAL</u>
	(Amounts in \$000)			
A. <u>External Technical Assistance</u>				
1. MIDA Dept. of Co-operatives				
18 man/months (m/m)				
Agric. Credit & Fin'l Systems				
18 m/m - Rural Admin. & Farm Mgt.				
36 m/m - Fin'l Mgt. Auditing				
12 m/m - short-term Consultants				
12 m/m Data Gathering & Evaluation				
96 man/months	\$ 302.0	\$ 220.0	-	\$ 522.0
2. BDA				
12 m/m - Cooperative Credit	36.0	-	-	36.0
3. COAGRO				
15 m/m - Gen'l Coop. Admin.				
10 m/m - Procurement & Distribution				
12 m/m - Production Mkts.				
37 man/months	112.0	-	-	112.0
4. FECOPAN				
36 m/m - Coop Admin./ Fin'l Systems				
24 m/m - Procurement, Inventory Control & Distribution				
60 man/months	180.0	-	-	180.0
5. Supporting Equipment for MIDA				
	10.0	-	-	10.0
Sub-total	\$ 640.0	\$ 220.0	-	\$ 860.0

	<u>AID</u>	<u>GOP</u>	<u>COOPS</u>	<u>TOTAL</u>
B. <u>Regulatory Functions</u>				
MIDA Audit Section	\$ 160.0	\$ 45.0	\$ -	\$ 205.0
C. <u>Agronomic & Credit Assistance</u>				
1. MIDA 60 Production Agents	-	440.0	110.0	550.0
2. Supporting Equipment	175.0	-	-	175.0
Sub-total	\$ 175.0	\$ 440.0	\$ 110.0	\$ 725.0
D. <u>Mobile Education Teams</u>				
1. MIDA Team Staff	\$ -	\$ 200.0	\$ -	\$ 200.0
2. Supporting Equipment	25.0	-	-	25.0
3. Courses & Seminars	-	175.0	175.0	350.0
Sub-total	\$ 25.0	\$ 375.0	\$ 175.0	\$ 575.0
E. <u>Training and Salary Costs</u>				
Managers and accountants	\$ 350.0	\$ -	\$ 215.0	\$ 565.0
GRAND TOTAL	\$1,350.0	\$1,080.0	\$ 500.0	\$2,930.0

3. Coordination and Direction of Project

The primary executing and coordinating agent for this project will be the Ministry of Agriculture. It will provide policy guidance to the BDA through its chairmanship of the Bank's Executive Committee. A high level coordinating committee will be established which will include a permanent voting member from each of the cooperative federations the BDA, MIDA, the Ministry of Planning and Economic Policy and the Ministry of Commerce and Industry. The members will be designated by functional title in the resolution establishing the Coordinating Committee. AID will be able to participate in this committee with a right to speak. The committee will be responsible for major policy decisions relating to the allocation and utilization of project resources both from the AID loan and the Government of Panama. In addition the Government and AID will each appoint full time project managers to monitor and supervise the execution of the project.

An implementation plan which is referred to in Section 3.01 of the Loan Agreement should (in addition to the requirements set forth there) also contain inter alia:

- (1) Provision for the appointment of a Panamanian Project Manager and staff to supervise the project.
- (2) an outline of the duties of the manager and his staff which will include field visits.
- (3) a schedule for the procurement of equipment needed by MIDA and BDA to carry out the project.

- (4) a schedule for the assignment of foreign technical assistants and Panamanian counterparts.
- (5) a schedule for the assignment of agricultural technicians to FEDPA and COAGRO.
- (6) a plan for augmenting the staff of the BDA to carry out its project responsibilities.
- (7) a plan for the creation of an Auditing Department within the Department of Cooperatives within MIDA.
- (8) a plan for the creation of a data gathering and evaluation section within the Department of Cooperatives of MIDA.