

PD-AAB-040-A1

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ACTION MEMORANDUM FOR THE DEPUTY U.S. COORDINATOR

FROM: LA/DR, John R. Breen 

Problem: To amend Loan 522-L-017, Secondary Education - Honduras. The Loan Agreement for subject Loan states that the Project will include, among other things, the construction of 21 secondary schools including specifically the Secondary Teacher Training School (ESP) in Tegucigalpa. However, it is now evident that the funds in the Project will be sufficient to finance only 16 secondary schools in all. The IBRD has agreed in principal to finance the facility for ESP. Consequently, the Mission has requested authorization to amend the Loan Agreement to reflect these two changes.

Discussion: Loan 522-L-017 was signed in September 1967. In January 1969 an engineering firm was hired for preparation of school designs and specifications. The designs and cost estimates for the first projects were completed in October of the following year. These estimates revealed that costs of just five facilities would be \$3.5 million or 50 percent of the funds earmarked for construction and would exceed by almost 127 percent the original estimates for the same projects in the Capital Assistance Paper. The GOH decided to postpone construction work on ESP and to redesign the schools in order to reduce the construction costs. It later became evident that even with the reworked plans the funds would not be sufficient to cover the construction costs of 21 facilities.

Since the GOH could not construct all the schools originally contemplated, the Ministry of Education in November 1972, asked the World Bank to include the ESP in a loan being considered for teacher training. The World Bank has agreed in principle and final loan negotiations are expected to be concluded this month. In addition the Ministry reduced the number of secondary schools to be financed under the project from 20 to 16 in line with the funds available.

The Loan Agreement singles out ESP both in the Project Description and in various conditions because of its importance as the sole secondary teacher training institution supplying qualified teachers for the expanding secondary system. The loan objectives in regards to ESP are: (a) to ensure an adequate number of trained teachers and (b) to improve the quality of teacher training. These objectives were to be carried out by constructing a new and expanded facility and by a program to improve teacher training (including staff training and curriculum reform). The construction portion of the program was postponed but the improvement program was substantially accomplished with the assistance of the

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Florida Consortium in the two and one-half years of its existence. ESP staff members were sent to Florida for training and the curriculum has been reorganized (including expansion from a three to four year program). In addition, the enrollment of ESP has been increased (surpassing a loan agreement requirement of at least 250 students) from 138 students in 1966 to 357 in 1970 and to 867 in 1973.

The Mission is at the point where it must modify the loan conditions regarding the construction of ESP before it can approve further GOH commitments. Sections 3.04 and 5.05 of the Loan Agreement require that an intensive review of the progress of the Project be undertaken prior to committing more than \$3,710,000 for construction. This commitment ceiling has been reached with the seven schools presently under construction and the Ministry is ready to solicit bids on several additional schools. The Mission has advised us that the required review is almost complete. However, specifically included in the review by the Loan Agreement is the completion of construction of ESP and expansion of its enrollment. Consequently, the review cannot technically be completed and commitments continued until the requirements regarding the construction of ESP are eliminated. The Mission is requesting that these conditions be eliminated and at the same time that the number of secondary schools to be constructed be reduced. We concur, but given the importance of ESP to the Project and the fact that the IBRD loan has not yet been approved, the Loan Agreement amendment should also contain a covenant wherein the GOH will agree to build, or cause to be built, a new and expanded building for ESP.

Recommendation: That you sign the attached cable and delegation of authority authorizing the Mission to negotiate and execute an amendment to the Loan Agreement which will eliminate the construction of the ESP from the loan Project and reduce the number of schools to be constructed from 20 to 16. The GOH will covenant to finance, or cause to be financed, the construction of a new facility for ESP.

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A.I.D. Loan No. 522-L-017

ALLIANCE FOR PROGRESS

FIRST AMENDMENT TO LOAN AGREEMENT

HONDURAS: SECONDARY SCHOOL SYSTEM

Between

THE REPUBLIC OF HONDURAS

and

THE UNITED STATES OF AMERICA

Dated: December 6, 1971

RECORDS

A.I.D. Loan No. 522-L-017

ALLIANCE FOR PROGRESS
FIRST AMENDMENT OF LOAN AGREEMENT

AMENDATORY AGREEMENT, in furtherance of the Alliance for Progress, dated the sixth day of December, 1971, between the Republic of Honduras ("Borrower") and the United States of America, acting through the Agency for International Development ("A.I.D.").

WHEREAS, on September 19, 1967, the Borrower and A.I.D. entered into a Loan Agreement, designated A.I.D. Loan No. 522-L-017 (hereinafter referred to as "Loan Agreement"), in which A.I.D. agreed to lend Borrower an amount not to exceed seven million United States dollars (\$7,000,000) to assist the Borrower in furtherance of the development of an education system oriented to the needs of Honduras; and

WHEREAS, the policies of A.I.D. have been modified to authorize the procurement of Other Eligible Country goods and services; and

WHEREAS, the Borrower and A.I.D. now desire to

amend the Loan Agreement to reflect these policies and to effect other changes;

NOW, THEREFORE, Borrower and A.I.D. agree to amend the Loan Agreement in the following respects:

SECTION 1. Delete the last two sentences of Section 1.02 (f) which read as follows:

"Technical Assistance will be provided by a loan-financed United States university team of educators, whose principal task will be the improvement of teacher training in the Escuela Superior. A companion task will be the administration of training programs in the United States and local workshops in Honduras."

SECTION 2. Strike Section 6.01, which relates to source and origin of Loan-financed procurement, and substitute the following:

"SECTION 6.01. Procurement from Other Eligible Countries and Procurement from Central America

"(a) Except as A.I.D. may otherwise agree in writing, and except as provided in subsection 6.07 (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 (except for the countries of Central America) 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. ("Other Eligible Country Goods and Services"). All ocean shipping financed under the loan shall have both its source and origin in countries included in Code 941 (except for the countries of Central America) of the A.I.D. Geographic Code Book as in effect at the time of shipment.

"(b) Except as A.I.D. may otherwise agree in writing, disbursement 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 countries of Central America."

SECTION 3. Strike Section 6.06 which relates to limitations on employment of third country nationals on Loan-financed construction contracts, and substitute the following:

"SECTION 6.06. Employment of Non-Other Eligible Country Nationals under Construction Contracts. The employment of personnel to perform services under any construction contract financed under the Loan shall be subject to certain requirements with respect to nationals of countries other than Central American Countries and countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time the construction contract is entered into. These requirements will be prescribed in Implementation Letters."

SECTION 4. Amend Section 6.07, which relates to shipping and insurance, as follows:

(a) In subsection (a), strike "Goods procured from the United States and" and substitute "Other Eligible Country Goods".

(b) In subsection (b), strike "goods procured from the United States and" and substitute "Other Eligible Country Goods".

(c) Strike subsection (c) and substitute the following:

"(c) Marine insurance on Other Eligible Country 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 the countries of Central America 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, Honduras, 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, Other Eligible Country 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 Other Eligible Country 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 replace or repair any material damage or any loss of the goods insured or shall be used to reimburse the Borrower for the replacement or repair of such goods. Any such replacements shall have their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts are entered into for such replacements, and shall be otherwise subject to the provisions of this Agreement."

SECTION 5. Strike all after the caption of Section 7.02, which relates to disbursement for local currency costs, and substitute the following:

"Upon satisfaction of conditions precedent, the Borrower may, from time to time, request disbursement by A.I.D. 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 submitting to A.I.D. such supporting documentation as A.I.D. may prescribe in Implementation Letters. A.I.D. shall make such disbursements from Lempiras owned by the United States Government and obtained by A.I.D. with United States dollars. The United States dollar equivalent of the Lempiras made available hereunder will be the amount of United States dollars required by A.I.D. to obtain the Lempiras."

IN WITNESS WHEREOF, Borrower and the United States of America, each acting through its respective duly authorized representative, have caused this Amendment of Loan Agreement to be signed in their

names and delivered as of the day and year first
above written.

THE UNITED STATES OF AMERICA

THE REPUBLIC OF HONDURAS

By: Edward Marasciulo

By: Lic. Elio Ynestroza M.

Title: Director
USAID/Honduras

Title: Minister of Finance
and Public Credit

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ALIANZA PARA EL PROGRESO

ALLIANCE FOR PROGRESS

SEGUNDA ENMIENDA A CONVENIO DE PRESTAMO
SECOND AMENDMENT TO LOAN AGREEMENT

HONDURAS: SISTEMA DE EDUCACION SECUNDARIA
HONDURAS: SECONDARY SCHOOL SYSTEM

ENTRE
BETWEEN

LA REPUBLICA DE HONDURAS
THE REPUBLIC OF HONDURAS

Y

LOS ESTADOS UNIDOS DE AMERICA
THE UNITED STATES OF AMERICA

Agency for International Development
Loan No. 522-L-017

Proj # 522-22-650-076

Tegucigalpa, Honduras
January 17, 1974

INFORMED COPY

ESTA SEGUNDA ENMIENDA AL CONVENIO DE PRESTAMO No. 522-L-017, en apoyo a la Alianza para el Progreso, se celebra el día 17 del mes de Enero de 1974 entre la República de Honduras ("Prestatario") y los Estados Unidos de América, actuando a través de la Agencia para el Desarrollo Internacional ("A.I.D.").

CONSIDERANDO, que el 19 de Septiembre de 1967, el Prestatario y la A.I.D. suscribieron un Convenio de Préstamo designado como Préstamo de A.I.D. No. 522-L-017 (de aquí en adelante denominado "Convenio de Préstamo") en el cual la A.I.D. convino en prestar al Prestatario una cantidad no mayor de Siete Millones de Dólares de los Estados Unidos de América (\$7,000,000) para asistir al Prestatario en el desarrollo de un sistema educacional orientado hacia las necesidades de Honduras; y

CONSIDERANDO, que el Convenio de Préstamo fué enmendado por un Acuerdo celebrado entre el Prestatario y la A.I.D. del 6 de Diciembre de 1971; y

CONSIDERANDO, que el Prestatario y la A.I.D. ahora desean nuevamente enmendar el Convenio de Préstamo en la forma descrita a continuación;

POR TANTO, el Prestatario y la A.I.D. convienen en enmendar el

THIS SECOND AMENDMENT TO LOAN AGREEMENT No. 522-L-017, in furtherance of the Alliance for Progress, is entered into on the 17th day of January, 1974 between the Republic of Honduras ("Borrower") and the United States of America, acting through the Agency for International Development ("A.I.D.").

WHEREAS, on September 19, 1967, the Borrower and A.I.D. entered into a Loan Agreement, designated A.I.D. Loan No. 522-L-017 (hereinafter referred to as "Loan Agreement") in which A.I.D. agreed to lend to Borrower an amount not to exceed Seven million United States dollars (\$7,000,000) to assist the Borrower in the development of an education system oriented to the needs of Honduras; and

WHEREAS, the Loan Agreement has been heretofore amended by an Agreement executed between Borrower and A.I.D. dated December 6, 1971; and

WHEREAS, the Borrower and A.I.D. now desire to further amend the Loan Agreement in the manner hereinafter set forth;

NOW, THEREFORE, Borrower and A.I.D. agree to amend the Loan Agreement,

Convenio de Préstamo, anteriormente enmendado, de la manera siguiente:

SECCION 1. Eliminar la Sección 1.02 del Convenio de Préstamo según fuera enmendado que se refiere a "El Proyecto" y sustituirla por la siguiente:

"SECCION 1.02. El Proyecto

El propósito del Proyecto es asistir al desarrollo más amplio de un sistema educacional de calidad orientado a las necesidades de Honduras. El Proyecto constituye esencialmente en una reorganización básica y una expansión de la educación secundaria en Honduras. El Proyecto consistirá en la asistencia financiera durante cinco años para:

(a) la construcción de edificios por lo menos para dieciseis (16) escuelas secundarias oficiales;

(b) la compra de muebles para aulas, laboratorios y otro equipo necesario, textos y, libros y materiales para biblioteca; y

(c) la asistencia técnica para la reorganización y mejoramiento de la administración y planes de estudio de la Escuela Superior del Profesorado (La Escuela de Entrenamiento para Profesores de Secundaria) y el sistema de educación secundaria.

as amended, as follows:

SECTION 1. Strike Section 1.02 of the Loan Agreement as amended which relates to "The Project" and substitute the following:

"SECTION 1.02. The Project

The purpose of the Project is to assist in furthering the development of a quality education system oriented to the needs of Honduras. It constitutes essentially a basic reorganization and expansion of Honduran secondary education. The Project shall consist of assistance over a period of five years in financing:

(a) the construction of buildings for not less than sixteen (16) official secondary schools;

(b) the purchase of classroom furniture, laboratory and other essential equipment, textbooks, and library books and materials; and,

(c) technical assistance in reorganizing and improving the administration and curriculum of the Escuela Superior del Profesorado (The Secondary Teacher Training School), and the secondary school system.

La combinación de mejorar las operaciones de la Escuela Superior del Profesorado, y la creación de facilidades modernas escolares en el país (a) traerán la educación secundaria a un gran número de jóvenes hondureños actualmente sin la oportunidad de seguir su educación; (b) proporcionará al sistema escolar con mayor número de profesores calificados; (c) proporcionará al sistema escolar un plan de estudios mejorado; y, (d) proporcionará los libros y materiales de biblioteca necesarios para un buen sistema educacional."

SECCION 2. Eliminar el sub-párrafo (b) de la Sección 3.04 y cambiar los literales de los sub-párrafos (c) y (d) de dicha sección por sub-párrafos con literales (b) y (c) respectivamente.

SECCION 3. Agregar una nueva Sección 5.08 al Artículo V, "Estipulaciones y Garantías Especiales", con el título de "Construcción de la Escuela Superior del Profesorado", que se lea de la manera siguiente:

"SECCION 5.08. Construcción de la Escuela Superior del Profesorado

El Prestatario conviene que financiará, o velará porque se financie, la construcción de una nueva instalación para la Escuela Superior del Profesorado dentro de un período de tiempo razonable, después de la fecha de celebración de esta Enmienda pero en ningún caso posterior al 1 de Julio de 1974."

The combination of improving the operations of the Escuela Superior del Profesorado, and the creation of modern school facilities throughout the country are intended to (a) bring secondary education to a great number of young Hondurans now without the opportunity to pursue their education; (b) provide the school system with an increased number of qualified teachers; (c) provide the school system with improved curricula; and (d) provide the textbooks and library materials necessary to a sound education system."

SECTION 2. Delete sub-paragraph (b) of Section 3.04 and reletter sub-paragraphs (c) and (d) of said section as sub-paragraphs (b) and (c) respectively.

SECTION 3. Add a new Section 5.08 to Article V, "Special Covenants and Warranties", with the title "Construction of the Escuela Superior del Profesorado" to read as follows:

"SECTION 5.08. Construction of the Escuela Superior del Profesorado

Borrower covenants that it will finance, or cause to be financed, the construction of a new facility for the Escuela Superior del Profesorado within a reasonable period of time following the date of execution hereof and in no event later than July 1, 1974."

EN FE DE LO CUAL, el Prestatario y la A.I.D., cada cual actuando a través de sus respectivos representantes debidamente autorizados, celebran esta Enmienda al Convenio de Préstamo en Tegucigalpa, D.C., Honduras en el día y año anteriormente indicados.

IN WITNESS WHEREOF, Borrower and A.I.D., each acting through its respective duly authorized representatives, have signed this Amendment to the Loan Agreement in Tegucigalpa, D.C., Honduras, as of the day and year first above written.

LA REPUBLICA DE HONDURAS

THE UNITED STATES OF AMERICA

Manuel Acosta Bonilla
Ministro de Hacienda y
Crédito Público

Edward Marasciulo
Director, Agency for
International Development