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MAR 19 1978

Aid-DLC/P-699

PD-AAB-174-A1

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR L.A.

3p.

FROM: LA/DR, Donor M. Lion A.

Problem: To amend Panama Loan 525-L-028 (Panama City Water Supply System) Authorization as amended to permit the Government of Panama to utilize the two-step payment procedure.

Discussion: This loan to the Panama Water Authority (IDAAN) was initially authorized June 1968 for \$15.0 million and increased to \$20.0 million in May 1971 to meet cost increases. Despite implementation delays and cost increases, the project has been successfully completed and the final loan disbursement was made within the extended terminal disbursement date of 12/31/75.

The option to utilize the two-step payment procedure was provided in the loan agreement but was not exercised within the time limit stipulated. An amendment is now required to eliminate the time limit to exercise the two-step option. The amended loan authorization and loan agreement provided that election by the GOP to utilize the two-step procedure must be made prior to the end of the grace period, or prior to the date that the first interest is due with respect to any disbursement in excess of \$15.0 million, whichever occurs first. The time limit to elect the two step procedure expired on November 30, 1975. There is no explanation for why the GOP did not elect to use the two-step procedure within the specified time limit. The procedure is being used for three previous AID loans to IDAAN.

The present request was prompted by the IBRD which is negotiating a \$12.0 million to IDAAN for a water treatment plant in Colon, transmission and distribution lines in various communities, a water metering program and management improvement. Financial analyses performed by the IBRD revealed that IDAAN is in a tight financial condition and projections indicated the need for water tariff increases and a capital contribution from the GOP. Consequently, the IBRD made the following three requests of IDAAN designed to improve its financial condition, and presumably as conditions for approving the loan: (1) IDAAN obtain AID authorization for the two-step payment procedure, (2) increase water rates, and (3) enforce collection of past due accounts. The first suggestion was made apparently on the erroneous presumption that adoption of the two-step procedure meant that IDAAN would receive directly the benefit of more liberal amorti tion terms. The IBRD now understands that under the two-step procedure IDAAN would continue to pay according to the original schedule and interest rates. Nevertheless, they still desire that we authorize the two-step procedure. By providing the GOP with additional capital resources on very favorable terms, we would, in effect, help to offset the burden assumed by the GOP

in providing counterpart contribution for the IBRD loan to IDAAN, which might have to be obtained by resorting to medium-term foreign borrowing. This would be especially helpful in view of Panama's current budget difficulties.

Recommendation: That you: (1) approve and sign the second amendment to the Authorization of Loan 525-L-028 permitting utilization of the two-step procedure (effective as of the next payment due following formalization of the procedure); (2) sign the attached delegation of authority; and (3) authorize the attached cable advising the Mission of the above actions.



ALLIANCE FOR PROGRESS

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

A.I.D. Loan No. 525-L-028
(Ref: AID-DLC/P-699)
Project Activity No. 525-22-
521-138

LOAN AUTHORIZATION - AMENDMENT NO. 2

Provided From: Alliance for Progress Funds

PANAMA: Panama City Water Supply System

Pursuant to the authority vested in the Deputy U.S. Coordinator Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby amend the text of the Loan Authorization for A.I.D. Loan No. 525-L-028, dated June 18, 1968, as amended by Loan Authorization Amendment No. 1, dated May 24, 1971, as follows:

1. Delete the first paragraph of section 1(b) in its entirety and substitute the following therefor:

"(b) If the Government of Panama ("Government") so elects, Borrower shall fulfill its dollar obligation under the Loan by paying to Government in the currency of Panama the equivalent, determined as of a time and in a manner satisfactory to A.I.D., of the United States dollar amounts payable to A.I.D. under (a) above, and in such event the Government shall pay to A.I.D.:"

2. Except as hereby expressly amended, the Loan Authorization, as amended, remains in full force and effect and all other terms and conditions remain unchanged.


Deputy U. S. Coordinator

3/19/76
Date

Clearances:
GC/LA, IALevy 1/19/76 Date 3/18
LA/PAN, RCamaur 1/19/76 Date _____
LA/DR, DLion 1/19/76 Date 3/19
LA/DR, RGomez _____ Date _____
PPC/DPR, AHandly _____ Date _____

SER/FM, TBlacka 3/18/76 Date 3/18/76
GC/LA, LLundy:lb:3/18/76