
LOAN NUMBER 1007 GU

Loan Agreement

(Second Telecommunications Project)

BETWEEN

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

AND

EMPRESA GUATEMALTECA DE TELECOMUNICACIONES

DATED *April 24*, 1975

LOAN AGREEMENT

AGREEMENT, dated *April 29*, 1975, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and EMPRESA GUATEMALTECA DE TELECOMUNICACIONES (hereinafter called the Borrower).

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated March 15, 1974, with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "CABEI" means the Central American Bank for Economic Integration;
- (b) "First and Second CABEI Loan Agreements" means the loan agreements between the Borrower and CABEI, dated September 12, 1974, and November 6, 1974, respectively, providing for loans by CABEI to the Borrower in an aggregate principal amount of \$2,760,000 equivalent;
- (c) "First and Second CABEI Loans" means the loans provided for under the First and Second CABEI Loan Agreements;
- (d) "First Loan Agreement" and "First Guarantee Agreement" mean, respectively, the Loan Agreement between the Bank and the Borrower, and the Guarantee Agreement between the Guarantor and the Bank, (Loan No. 792), both dated January 5, 1972;
- (e) "Fiscal Year" means the Borrower's fiscal year which coincides with the calendar year;

(f) "*Ley Orgánica*" means the *Ley Orgánica de la Empresa Guatemalteca de Telecomunicaciones*, enacted by Decree No. 14-71 of the Guarantor's Congress and published in the official gazette *El Guatemalteco* on April 13, 1971;

(g) "Quetzal" and the symbol "Q" mean the currency of the Guarantor; and

(h) "*Resolución*" means the resolution adopted by the *Junta Directiva* of the Borrower in *Sesión Ordinaria* of December 27, 1974, *Acta No. 44-74*, approving procedures set up in the Borrower's memorandum No. DF-08-74, dated December 13, 1974.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to twenty-six million dollars (\$26,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time, for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

Section 2.03. Except as the Bank shall otherwise agree, the goods, works and services (other than consultants' services) for the Project to be financed out of the proceeds of the Loan, shall be procured in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.04. The Closing Date shall be June 30, 1979 or such other date as shall be agreed between the Bank and the Borrower.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. The Borrower shall pay interest at the rate of eight and one-half per cent ($8-1/2\%$) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semi-annually on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.09. Except as the Bank shall otherwise agree, if the Borrower shall repay in advance of maturity any part of its indebtedness under the CABEI Loan Agreements, the Borrower shall simultaneously repay a proportionate amount of the Loan then outstanding. All the provisions of the General Conditions relating to repayment in advance of maturity shall be applicable to any repayment by the Borrower in accordance with this Section.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and telecommunications practices.

Section 3.02. (a) Except as the Bank shall otherwise agree, in order to assist the Borrower in the planning of the training facilities included in Part F of the Project, and the design of the Guatemala City multiexchange network included in Part A of the Project, the Borrower shall employ, to the extent necessary, experts whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank.

(b) The Borrower shall, within sixty days from the Effective Date, or such later date as shall be agreed with the Bank, review with the Bank the proposals prepared by the experts referred to in paragraph (a) hereof, including the proposed staffing and equipment arrangements for said training facilities.

Section 3.03. (a) The Borrower undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

(b) Except as the Bank shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for the Project.

Section 3.04. (a) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans, specifications, contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Bank shall reasonably request.

(b) The Borrower: (i) shall maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Loan, and to disclose the use thereof in the Project; (ii) shall, without limitation upon the provisions of paragraph (c) of this Section, enable the Bank's representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents; and (iii) shall furnish to the Bank all such information as the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan and the goods and services financed out of such proceeds.

(c) The Borrower shall enable the Bank's representatives to examine all plants, installations, sites, works, buildings, property and equipment of the Borrower and any relevant records and documents.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. (a) The Borrower shall at all times manage its affairs, maintain its financial position, plan its future expansion and carry on its operations, all in accordance with sound business, financial and public utility practices and under the supervision of experienced and competent management, assisted by qualified staff.

(b) Except as the Bank shall otherwise agree, the Borrower shall take all necessary action to achieve a ratio of not more than 24 employees per 1,000 telephones not later than June 30, 1977, and shall not exceed that ratio thereafter.

Section 4.02. (a) The Borrower shall take all steps necessary to acquire, maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

(b) The Borrower shall at all times operate and maintain its plants, equipment and property, and from time to time make all necessary repairs and renewals thereof, in accordance with sound engineering and public utility practices.

(c) Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not sell, lease, transfer or otherwise dispose of any of its property or assets which shall be required for the efficient operation of its business and undertaking, including the Project.

(d) The Borrower shall not create, acquire a proprietary interest in or take over any company if such creation, acquisition or taking over would adversely and substantially affect its financial condition or the efficiency of the Borrower's management and personnel.

Section 4.03. The Borrower shall take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with sound public utilities practice.

ARTICLE V

Financial Covenants

Section 5.01. The Borrower shall maintain records adequate to reflect in accordance with consistently maintained appropriate accounting practices its operations and financial condition.

Section 5.02. The Borrower shall: (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank; (ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnish to the Bank such other information concerning the accounts and financial statements of the Borrower and the audit thereof as the Bank shall from time to time reasonably request.

Section 5.03. (a) The Borrower represents that at the date of this Agreement no lien exists on any of its assets as security for any debt.

(b) The Borrower undertakes that, except as the Bank shall otherwise agree: (i) if the Borrower shall create any lien on any of its assets as security

for any debt, such lien will equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan, and in the creation of any such lien express provision will be made to that effect, at no cost to the Bank; and (ii) if any statutory lien shall be created on any assets of the Borrower as security for any debt, the Borrower shall grant, at no cost to the Bank, an equivalent lien satisfactory to the Bank to secure the payment of the principal of, and interest and other charges on, the Loan; provided, however, that the foregoing provisions of this paragraph shall not apply to: (A) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (B) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after the date on which it is originally incurred.

Section 5.04. The Borrower shall not undertake capital expenditures for any major expansion before the Closing Date, unless a financing plan therefor has been approved by the Bank. For purposes of this Section, the term "major expansion" means a project or projects the aggregate expenditures for which are expected to exceed in any one year one million quetzals (Q1,000,000) or 5% of the previous fiscal year's capital expenditure of the Borrower, whichever shall be the higher.

Section 5.05. (a) Except as the Bank shall otherwise agree, commencing with Fiscal Year 1975, the Borrower shall take or cause to be taken, from time to time, all such steps (including, but without limitation, adjustment of the structure or over-all level of its telecommunications tariffs in accordance with the *Ley Orgánica*) as shall be required to provide in 1975, 1976, 1977 and 1978, funds from internal sources equivalent to not less than 6%, 10%, 10% and 8% respectively of the total value of its fixed assets related to telecommunications operations, including work in progress;

(b) For the purposes of this Section:

- (i) The term "funds from internal sources" shall be calculated as the difference between:
- (1) the sum of gross revenues from all sources related to telecommunications operations, consumer deposits, cash contributions in aid of construction and net non-operating income; and
 - (2) The sum of all expenses of operations, maintenance and administration (excluding depreciation), interest and other charges on debt, repayment of loans (including sinking

fund payments, if any), all taxes or payments in lieu of taxes, all cash dividends and other cash distributions of surplus, increase (or decrease) in net working capital other than cash, and any other cash outflows other than capital related to telecommunications operations.

- (ii) The term "total value of its fixed assets related to telecommunications operations, including work in progress" shall mean the value of utility plant in operation less the amount of accumulated depreciation at the end of the fiscal year, all valued from time to time in accordance with sound and consistently maintained methods of valuation acceptable to the Bank, and including the cost of investment in plant not yet in service; provided, however, that when a major asset shall be brought into operation during the year, the value of such asset shall be included in the foregoing computation in respect of the part of the year during which such asset shall have been in operation.
- (iii) The term "increase (or decrease) in net working capital other than cash" shall mean the difference between current assets excluding cash (or its equivalent) less current liabilities at the beginning and at the end of the fiscal year.

Section 5.06. (a) Except as the Bank shall otherwise agree, the Borrower shall take or cause to be taken, from time to time, all such steps (including, but without limitation, adjustments of the structure or overall level of its telecommunications tariffs in accordance with the *Ley Orgánica*) as shall be required to provide revenues sufficient to produce an annual rate of return of not less than 11% commencing with Fiscal Year 1979.

- (b) For the purposes of this Section:
 - (i) The annual rate of return shall be calculated by dividing the net operating income for the fiscal year in question by one half the sum of the value of the net fixed assets in service (as defined in (iii) below) at the beginning and at the end of the year in question. The quotient shall be multiplied by 100 to obtain a percentage;
 - (ii) The term "net operating income" shall mean gross revenues from all sources related to telecommunications operations less all expenses of operation, administration, adequate maintenance,

taxes or any payments in lieu of taxes, straight-line depreciation at an average rate of not less than 4.5% per annum of the average gross fixed assets in service as valued in (iii) below. Interest and other charges on debt shall be excluded from the calculation of net operating income; and

- (iii) The term "value of the net fixed assets in service" shall mean the gross value of the fixed assets in service less the amount of accumulated depreciation, all valued from time to time in accordance with sound and consistently maintained methods of valuation or revaluation acceptable to the Bank; provided, however, that when a major asset shall be brought into operation during the year the value of such asset shall be included in the foregoing computation in respect of that part of the year during which such asset shall have been in operation.

Section 5.07. Except as the Bank shall otherwise agree, the Borrower shall not incur any debt unless its net revenues for the fiscal year next preceding such incurrence or for a later twelve-month period ended prior to such incurrence, whichever amount is the greater, shall be not less than 1.5 times the maximum debt service requirement for any succeeding fiscal year on all debt, including the debt to be incurred. For the purposes of this Section:

(a) The term "debt" means all debt of the Borrower maturing by its terms more than one year after the date on which it is incurred.

(b) Debt shall be deemed to be incurred on the date of execution and delivery of a contract, loan agreement or other instrument providing for such debt; provided, however, that in the case of guarantee of debt, debt shall be deemed to be incurred on the day the agreement guaranteeing such debt has been entered into but only to the extent that the guaranteed debt is outstanding.

(c) The term "net revenues" shall mean gross revenues adjusted to take account of the Borrower's tariffs in effect at the time of the incurrence of debt even though they were not in effect during the fiscal year or twelve-month period to which such revenues relate, less operating and administrative expenses and the amounts referred to in subparagraphs (b), (d) and (e) of Article 23 of the *Ley Orgánica*, but before provision covering depreciation, interest and other charges on debt.

(d) The term "debt service requirement" shall mean the aggregate amount of amortization (including sinking fund payments, if any), interest and other charges on debt.

(e) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt.

ARTICLE VI

Amendment of the First Loan Agreement

Section 6.01. The First Loan Agreement is hereby amended by substituting the text of: (a) Section 5.04 of this Agreement for Section 5.05 of the First Loan Agreement; and (b) Sections 5.05 and 5.06 of this Agreement for Section 5.07 of the First Loan Agreement.

ARTICLE VII

Remedies of the Bank

Section 7.01. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified:

(a) the *Ley Orgánica* shall have been modified so as to affect adversely and substantially the conduct of the Borrower's operations or financial condition or the performance of its obligations under this Agreement;

(b) the *Resolución* shall have been suspended, repealed or amended;

(c) the Guarantor shall have failed to enable the Borrower to take the action specified in Section 3.03 of the Guarantee Agreement by the date specified therein;

(d) the Borrower shall have failed to obtain from CABEI a loan (for purposes of this Article called the Third CABEI Loan) of at least \$2,800,000 equivalent for the expansion of the regional telecommunications network, and to fulfill all conditions precedent to its effectiveness by June 30, 1976;

(e) Article 3 and Article 4 of *Decreto del Congreso* No. 32-72 dated May 30, 1972 shall have not been included in the *Decreto del Congreso* authorizing or ratifying the agreement for the Third CABEI Loan; and

(f) the right of the Borrower to utilize the First or Second or Third CABEI Loan shall have been suspended or cancelled in whole or in part.

Section 7.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified:

(a) the events specified in Section 7.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor; and

(b) a default shall occur in the performance of any obligation (other than an obligation to pay monies) on the part of the Borrower or the Guarantor under the First Loan Agreement or the First Guarantee Agreement, and such default shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor; and

(c) the First or Second or Third CABEI Loan shall have become due and payable before its agreed maturity in accordance with the terms thereof.

ARTICLE VIII

Effective Date; Termination

Section 8.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(e) of the General Conditions:

(a) The execution and delivery of the First and Second CABEI Loan Agreements on behalf of the Borrower and CABEI have been duly authorized or ratified by all necessary corporate and governmental action, and all conditions precedent to the effectiveness of said agreements or the right to make withdrawals thereunder, except only the effectiveness of said agreements, shall have been fulfilled.

(b) A bond issue by the Borrower of Q5,000,000 has been duly authorized or ratified by all necessary corporate and governmental action.

(c) Article 3 and Article 4 of *Decreto del Congreso* No. 32-72 dated May 30, 1972 have been included in each of the *Decretos del Congreso* authorizing or ratifying this Agreement, the First and Second CABEI Loan Agreements and the bond issue referred to in paragraph (b) above.

Section 8.02. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the CABEI Loan

Agreements have been duly authorized or ratified by, and executed and delivered on behalf of the Borrower and CABEI, respectively, and are legally binding upon the Borrower and CABEI in accordance with their terms.

Section 8.03. The date August 28, 1975 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE IX

Addresses

Section 9.01. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

For the Borrower:

Empresa Guatemalteca de
Telecomunicaciones
7a Avenida, 12-39, Zona 1
Guatemala, Guatemala, C.A.

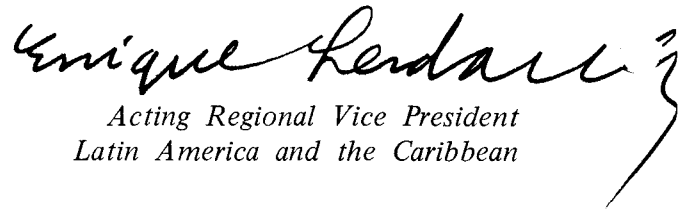
Cable address:

GUATEL
Guatemala

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

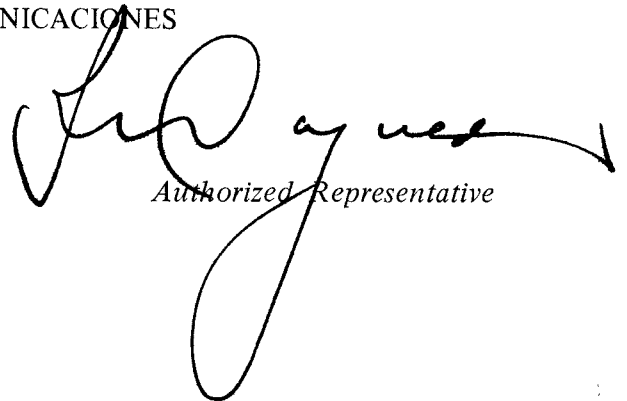
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By


Enrique Hernandez
Acting Regional Vice President
Latin America and the Caribbean

EMPRESA GUATEMALTECA DE
TELECOMUNICACIONES

By


Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<i>Category</i>	<i>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</i>	<i>% of Expenditures to be Financed</i>
(1) Local telephone network	18,220,000	100% of foreign expenditures
(a) exchange equipment		
(b) local cable network, subscribers plant and telephone instruments		
(2) Long-distance network	2,150,000	100% of foreign expenditures
(a) Microwave, VHF and UHF radio equipment		
(b) Cable, poles and wires		
(c) Equipment for rural services		
(3) Telex equipment	680,000	100% of foreign expenditures
(4) Consultants, training and training equipment	1,000,000	100% of foreign expenditures
(5) Unallocated	3,950,000	
	TOTAL	
	26,000,000	

2. For the purposes of this Schedule, the term "foreign expenditures" means expenditures for goods or services supplied from, the territory, and in the currency, of any country other than the Guarantor.

3. The disbursement percentages have been calculated in compliance with the policy of the Bank that no proceeds of the Loan shall be disbursed on account of payments for taxes levied by, or in the territory of, the Guarantor on goods or services, or on the importation, procurement or supply thereof; to that end, if any such taxes shall be included in the cost of any item to be financed out of the proceeds of the Loan, the Bank may, by notice to the Borrower, correspondingly reduce the disbursement percentage then applicable to such item.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of expenditures prior to the date of this Agreement.

5. Notwithstanding the allocation of an amount of the Loan set forth in the table in paragraph 1 above, if the Bank has reasonably estimated that the amount of the Loan then allocated to any Category will be insufficient to finance the agreed percentage of all expenditures in that Category, the Bank may, at the request of the Borrower, reallocate to such Category to the extent required to meet the estimated shortfall proceeds of the Loan which are then allocated to another Category and which in the opinion of the Bank are not needed to meet other expenditures.

6. Notwithstanding the disbursement percentages set forth in the table in paragraph 1 above, if the estimate of expenditures under any Category shall increase and no proceeds of the Loan are available for reallocation to such Category, the Bank may, by prior notice to the Borrower, adjust the percentage then applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

7. If the Bank shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in this Agreement, no expenditures for such item shall be financed out of the proceeds of the Loan and the Bank may, without in any way restricting or limiting any other right, power or remedy of the Bank under the Loan Agreement, by prior notice to the Borrower, cancel such amount of the Loan as in the Bank's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Loan.

SCHEDULE 2**Description of the Project**

The Project is the Borrower's Phase I (1975-1978) of the Second Development Program (1975-1981) for modernization and expansion of its telecommunications services and consists of the following:

- Part A.* Expansion of the local telephone exchange switching equipment capacity by about 82,900 exchange lines, together with associated expansion of the cable network, distribution facilities and buildings to permit connection of at least 60,000 additional direct exchange lines.
- Part B.* Expansion of long-distance facilities by microwave, VHF/UHF radio, cable and open wire systems for an additional 722 trunk channels.
- Part C.* Expansion of capacity of the international telephone exchange by 600 circuits and installation of a new main trunk exchange with a final capacity of 3,000 circuits equipped for 1,200 circuits for traffic growth and further carrying out of subscriber dialing.
- Part D.* Improvement and extension of the rural telephone system to about 86 locations by use of UHF/VHF radio systems.
- Part E.* Expansion of the telex network by 250 lines.
- Part F.* Expansion of the Borrower's training facilities.

* * * *

The Project is expected to be completed by December 31, 1978.

SCHEDULE 3

Amortization Schedule

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
October 15, 1979	395,000
April 15, 1980	410,000
October 15, 1980	430,000
April 15, 1981	450,000
October 15, 1981	470,000
April 15, 1982	485,000
October 15, 1982	510,000
April 15, 1983	530,000
October 15, 1983	555,000
April 15, 1984	575,000
October 15, 1984	600,000
April 15, 1985	625,000
October 15, 1985	655,000
April 15, 1986	680,000
October 15, 1986	710,000
April 15, 1987	740,000
October 15, 1987	770,000
April 15, 1988	805,000
October 15, 1988	840,000
April 15, 1989	870,000
October 15, 1989	910,000
April 15, 1990	950,000
October 15, 1990	990,000
April 15, 1991	1,035,000
October 15, 1991	1,075,000
April 15, 1992	1,120,000
October 15, 1992	1,170,000
April 15, 1993	1,220,000
October 15, 1993	1,270,000
April 15, 1994	1,325,000
October 15, 1994	1,380,000
April 15, 1995	1,450,000

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05(b) of the General Conditions:

<i>Time of Prepayment</i>	<i>Premium</i>
Not more than three years before maturity	1-1/4%
More than three years but not more than six years before maturity	2-1/2%
More than six years but not more than eleven years before maturity	4-1/2%
More than eleven years but not more than sixteen years before maturity	6-3/4%
More than sixteen years but not more than eighteen years before maturity	7-1/2%
More than eighteen years before maturity	8-1/2%

SCHEDULE 4**Procurement****A. General Procedures**

1. Except as provided in Part A.2 hereof, contracts shall be let under procedures consistent with those set forth in the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in April 1972, as revised in October 1972 (hereinafter called the Guidelines), on the basis of international competitive bidding.

2. Contracts for the procurement of switching equipment for approximately 20,000 telephone exchange lines required to extend existing telecommunications installations (Part A of Schedule 2 to this Agreement) may be placed through negotiations with the manufacturers who originally supplied such installations under the First Loan Agreement after international competitive bidding, provided:

(a) that the terms and conditions of negotiated contracts are acceptable to the Bank, and in particular that the prices (i) take into account the previous contracts with the suppliers for similar equipment, and (ii) compare reasonably with prices which are obtained for similar installations after competitive bidding;

(b) that any draft contract and any other document relevant thereto which the Bank shall request will be submitted to the Bank for review and approval prior to making any award of contract or issuing any letter of intent; and

(c) that the aggregate amount of such contracts shall not exceed the equivalent of approximately two million dollars (\$2,000,000).

B. Evaluation and Comparison of Bids for Goods; Preference for Central American Common Market Manufacturers

For the purpose of evaluating bids for goods and associated services, bid prices shall be determined and compared in accordance with the following rules:

1. the term "Central American Bid" means a bid submitted by a manufacturer established in the territories of the member countries of the Central American Common Market for goods manufactured or processed to a substantial extent (as reasonably determined by the Bank) in such territories; any other bid shall be deemed to be a "Non-Central American Bid";

2. the bid price under a Central American Bid shall be the sum of the following amounts:

- (i) the ex-factory price of such goods; and
- (ii) freight, insurance and other costs of delivery of such goods to the place of their use or installation;

3. for the purpose of comparing any Non-Central American Bid with any Central American Bid, the bid price under a Non-Central American Bid shall be the sum of the following amounts:

- (i) the c.i.f. (port of entry) price of such goods;
- (ii) half the amount of any taxes on the importation of such goods into the territories of the Guarantor which generally apply to non-exempt importers, or 15% of the amount specified in (i) above, whichever shall be the lower; and
- (iii) freight, insurance and other costs of delivery of such goods from their port of entry to the place of their use or installation.

C. *Review of Procurement Decisions by Bank*

1. Review of invitation to bid and of proposed awards and final contracts:

With respect to all contracts for goods estimated to cost the equivalent of \$100,000 or more:

(a) Before bids are invited, the Borrower shall furnish to the Bank, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Bank shall reasonably request. Any further modification to the bidding documents shall require the Bank's concurrence before it is issued to the prospective bidders.

(b) Promptly after the bids have been received, the Borrower shall inform the Bank of the names of the bidders and the respective amounts of the bids.

(c) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Bank of the name of the bidder to which it intends to award the contract and the reasons for the intended award and shall furnish to the Bank, in sufficient time for its review, a detailed report on the evaluation and comparison of the bids received, together with the recommendation for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the intended award would be inconsistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

(d) The terms and conditions of the contract shall not, without the Bank's concurrence, materially differ from those on which bids were asked.

(e) Two conformed copies of the contract shall be furnished to the Bank promptly after its execution and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract.

2. With respect to each contract to be financed out of the proceeds of the Loan and not governed by the preceding paragraph, other than those referred to in Part A.2 above, the Borrower shall furnish to the Bank, promptly after its execution and prior to furnishing to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of bids, recommendations for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.