

LOAN NUMBER 1315 T-GU

PROJECT AGREEMENT

(Earthquake Reconstruction Project -
Urban Sites and Services Component)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

BANCO NACIONAL DE LA VIVIENDA

Dated *August 2*, 1976

PROJECT AGREEMENT

AGREEMENT, dated August 2, 1976, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and BANCO NACIONAL DE LA VIVIENDA (hereinafter called BANVI).

WHEREAS (A) by the Loan Agreement of even date herewith between Republic of Guatemala (hereinafter called the Borrower) and the Bank (Earthquake Reconstruction Project - Urban Sites and Services Component), the Bank has agreed to lend to the Borrower an amount in various currencies equivalent to twenty million dollars (\$20,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that BANVI agree to undertake such obligations toward the Bank as hereinafter set forth;

(B) by the Subsidiary Contract the Borrower will ensure that the proceeds of the loan provided for under the Loan Agreement will be made available to BANVI on the terms and conditions therein set forth; and

WHEREAS BANVI, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. BANVI shall carry out the Project described in Schedule 2 to the Loan Agreement, substantially in accordance with an implementation schedule satisfactory to the Bank, with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 2.02. (a) BANVI shall enter with the Borrower and Banco de Guatemala into the Subsidiary Contract and utilize the proceeds of the Loan made available to BANVI thereby only for purposes of the Project.

(b) BANVI shall enter with the Borrower and Banco de Guatemala into the Fideicomiso Contract.

(c) BANVI shall make the necessary Contractual Arrangements satisfactory to the Bank with: (i) INDE, EMPAGUA or other relevant agencies of the Borrower acceptable to the Bank, for purposes of Part A of the Project; and (ii) INTECAP or other relevant agencies of the Borrower acceptable to the Bank, for purposes of Part C of the Project.

(d) BANVI shall exercise its rights and perform its obligations under the Subsidiary Contract, the Fideicomiso Contract, and the Contractual Arrangements and, except as the Bank shall

otherwise agree, BANVI shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Contract, the Fideicomiso Contract, any of the Contractual Arrangements, or any provision thereof.

Section 2.03. Except as the Bank shall otherwise agree, dwelling plots under Part A (1) of the Project shall be allocated and sold to every Beneficiary substantially in accordance with the procedures set forth in Part I of Schedule 3 to this Agreement, as such Schedule may be amended from time to time by agreement between the Bank and BANVI.

Section 2.04. Except as the Bank shall otherwise agree, in the carrying out of Part B of the Project, BANVI shall:

(a) for purposes of Part B (1), make loans to Beneficiaries on terms and conditions satisfactory to the Bank, including such terms and conditions as set forth in Part I of Schedule 3 to this Agreement, as such Schedule may be amended from time to time by agreement between the Bank and BANVI;

(b) for purposes of Part B (2) and in such cases where BANVI shall not have an established branch or office in the applicable Borrower's Municipio referred to in Part B (2) of the Project: (i) enter into contracts with Participating Banks, to cause such Participating Banks to make loans, or to assist BANVI to make loans, to natural persons on terms and conditions satisfactory to the Bank, inter alia, such terms and conditions as set forth in Part II of Schedule 3 to this Agreement, as such Schedule may be amended from time to time by agreement between the Bank and BANVI; and (ii) furnish to the Bank, for its approval, every such contract;

(c) for purposes of Part B (3), make loans to building materials manufacturers in the manner described in Part III of Schedule 3 to this Agreement, as such Schedule may be amended from time to time by agreement between the Bank and BANVI, and on such other terms and conditions as shall be satisfactory to the Bank including a repayment period not exceeding five years and an annual interest at the rate of nine and seventy-five hundredths percent (9.75%) per annum on the outstanding principal or such other rate as shall be satisfactory to the Bank;

(d) furnish to the Bank for its approval the model forms of contracts to be used for: (i) lending to Beneficiaries under paragraph (a) above; and (ii) lending to building materials manufacturers under paragraph (c) above; and

(e) not change the model forms referred to in (d) above, shall exercise its rights under every contract BANVI shall have entered into in respect of Part B of the Project (including every Participating Bank Contract), and duly perform all of BANVI's obligations thereunder, in such manner as to protect the interests of the Borrower, the Bank and BANVI and to accomplish the purposes of the Loan, and shall not assign, or amend, abrogate, waive or fail to enforce such contracts or any provision thereof.

Section 2.05. In order to assist BANVI in the carrying out of the Project, in engineering and technical supervision, training of loan beneficiaries and project monitoring and evaluation, promotion of small business, and such other matters as shall be agreed between the Bank and BANVI, BANVI shall employ by December 31, 1976, or such later date as shall be determined by the

Bank, a Senior Engineer, an Urban Planner, an Architect and a Business Development Specialist, under terms of reference and terms and conditions of employment, both satisfactory to the Bank.

Section 2.06. Except as the Bank shall otherwise agree, contracts for the purchase of goods or for civil works to be financed out of the proceeds of the Loan, shall be procured in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Bank and BANVI.

Section 2.07. (a) BANVI undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan made available to it by the Borrower 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 BANVI to replace or repair such goods.

(b) Except as the Bank may otherwise agree, BANVI shall cause all goods and services, except vehicles and equipment for the Project Unit, financed out of the proceeds of the Loan made available to it by the Borrower, to be used exclusively for the Project; such vehicles and equipment for the Project Unit to be used exclusively for the Project until its completion.

Section 2.08. (a) BANVI shall furnish to the Bank, promptly upon their preparation, the plans, specifications, reports, 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) BANVI: (i) shall maintain, and cause every Participating Bank and the borrowers of loans under Part B (3) of the Project to 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 made available to it by the Borrower, 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 such proceeds and in respect to the Project, any relevant records and documents; and (iii) shall furnish to the Bank quarterly Project cost statements and all such other information as the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan so made available to it and the goods and services financed out of such proceeds.

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

(d) BANVI shall cause the Participating Banks and all borrowers of loans under Part B of the Project: (i) to enable BANVI's representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of such loans and, in respect of the Project, any relevant records and documents; and (ii) to furnish BANVI with all such information as BANVI shall reasonably request.

Section 2.09. (a) BANVI shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement, under the Subsidiary Contract, under the Fideicomiso Contract, under every Participating Bank Contract and under the Contractual Arrangements, and other matters relating to the purposes of the Loan.

(b) BANVI shall promptly inform the Bank of any condition which interferes or threatens to interfere with, the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by BANVI of its obligations under this Agreement, under the Subsidiary Contract and under the Fideicomiso Contract or the performance by BANVI or, respectively, the Participating Banks and any of the Instituciones, of their respective obligations under the applicable Participating Bank Contract and the Contractual Arrangements.

Section 2.10. BANVI shall:

(a) monitor continuously the progress of the Project in accordance with terms of reference satisfactory to the Bank;

(b) evaluate such progress and compare the same with the implementation schedule of the Project referred to in Section 2.01 of this Agreement;

(c) prepare each quarterly progress report; and

(d) furnish to the Bank the reports in (c) above within two months from the end of each such quarter.

Section 2.11. (a) BANVI shall take or cause to be taken all such actions as shall be necessary to acquire, as and when needed and in such sites as to be determined by agreement between the Bank and BANVI, all such land and rights in respect of land as shall be required for the construction (and operation) of the facilities included in Part A of the Project and shall furnish to the Bank, promptly after such acquisition, evidence satisfactory to the Bank that such land and rights in respect of land are available for purposes of Part A of the Project.

(b) Notwithstanding the provisions of paragraph (a) above BANVI shall furnish the Bank, not later than six months after the date of this Agreement, or such later date as the Bank shall determine, with a schedule and timetable satisfactory to the Bank which, inter alia, will show the availability of, and actions to be taken for the acquisition of, the land and rights in respect of land referred to in (a) above.

Section 2.12. Except as the Bank shall otherwise agree, BANVI shall:

(a) transfer the title to the land on which the schools referred to in Part A (1) of the Project will be constructed, and all rights in respect of such land, to the Borrower's Ministry of Education;

(b) ensure that such transfer of title is accomplished by way of grant as and when needed for purposes of Part A (1) of the Project; and

(c) furnish to the Bank, promptly after such transfer of title, evidence satisfactory to the Bank that such land and rights in respect of land, are available to the Borrower.

ARTICLE III

Management and Operations of BANVI

Section 3.01. BANVI shall, at all times, carry on its operations in accordance with appropriate business, financial and engineering practices and under the supervision of experienced and qualified management assisted by adequate, experienced and qualified staff.

Section 3.02. Except as the Bank shall otherwise agree; BANVI shall:

(a) carry out a management study for the purpose of: (i) defining specific plans, tasks and personnel to undertake an urban reconstruction program in Guatemala; (ii) providing policy guidelines for the evaluation of the impact of Earthquake reconstruction efforts upon BANVI's normal operations; (iii) ensuring the ways for an adequate coordination of BANVI's departments, among such departments and with other agencies of the Borrower engaged in the urban reconstruction program referred to in (i) above; and (iv) streamlining and reviewing BANVI's organization with a view to improving its accounting, cost determination and reporting, loan collection, and economic and financial planning;

(b) carry out the study referred to in (a) above, under terms of reference satisfactory to the Bank; and

(c) after completion of the study referred to in (a) above, review with the Bank the recommendations thereof prior to the implementation of such recommendations.

Section 3.03. (a) BANVI shall maintain an organization satisfactory to the Bank for the execution of the Project.

(b) For purposes of paragraph (a) above, and except as the Bank shall otherwise agree, BANVI shall: (i) create, and maintain until the Closing Date, the position of Vice President for Reconstruction; (ii) afford the Bank, until the Closing Date, a reasonable opportunity to comment on the qualifications and experience of any person proposed for appointment to such position of Vice President for Reconstruction, before making such appointment; (iii) establish, and maintain until the Closing Date, a Project Unit which shall be charged with such functions, and shall be staffed in such manner, as is set forth in Schedule 2 to this Agreement, as such Schedule may be amended from time to time by agreement between the Bank and BANVI; and (iv) afford the Bank a reasonable opportunity to comment on any proposed reorganization of BANVI, including the advantageousness of implementing the recommendations of the study referred to in Section 3.02 (a) above.

Section 3.04. (a) Except as the Bank shall otherwise agree, and subject to the provisions of paragraph (c) of Section 3.02 of this Agreement, BANVI shall take all necessary measures to ensure that by December 31, 1977, and at all times thereafter, loans in arrears shall not exceed twenty-five per cent (25%) of the total number of loans made by BANVI, including loans made for purposes of the Project, and outstanding at any particular time.

(b) For the purposes of this Section "loans in arrears" means loans made by BANVI, or installments thereof, whether or not secured by collateral, which remain unpaid three months after the agreed maturity of such loans or installments.

Section 3.05. Except as the Bank shall otherwise agree, BANVI shall take all steps necessary to acquire, maintain, and renew all rights, powers and franchises which are necessary or useful for the purposes of carrying out its obligations under this Agreement.

Section 3.06. BANVI shall take out and maintain with responsible insurers or make other provisions satisfactory to the Bank for insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.07. BANVI shall take all steps necessary to acquire, in the manner provided for in Section 4.02 of the Loan Agreement, all monies and assets existing within the Fideicomiso upon termination of the Fideicomiso Contract.

ARTICLE IV

Financial Covenants

Section 4.01. (a) BANVI shall maintain records adequate to reflect in accordance with consistently maintained appropriate accounting practices its operations and financial condition.

(b) BANVI shall establish and maintain, and cause every Participating Bank and, whenever feasible, every borrower of loans under Part B (3) of the Project to establish and maintain, separate accounts for the Project and shall register, and cause each such Participating Bank and each such borrower to register in such accounts all receipts and payments for or in connection with the Project, in accordance with appropriate accounting practices consistently applied.

Section 4.02. BANVI shall: (i) have, and cause every Participating Bank to have, their respective accounts and financial statements (Project cost statement, balance sheets, statements of income and expenses and related statements) for each respective fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (ii) furnish, and, in respect of the Project, cause every Participating Bank to furnish to BANVI, as soon as available, but in any case not later than six months after the end of such year, (A) certified copies of their respective financial statements for such year as so audited, and (B) the report of such audit by such auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnish to the Bank, and cause

every Participating Bank to furnish to BANVI, such other information concerning the accounts and financial statements of BANVI and of each such Participating Bank and the audit thereof as the Bank shall from to time reasonably request.

Section 4.03. (a) BANVI represents that at the date of this Agreement no lien exists on any of its assets as security for any debt, except as otherwise currently reported or disclosed in writing by BANVI to the Bank.

(b) BANVI undertakes that, except as the Bank shall otherwise agree: (i) if any lien shall be created on any assets of BANVI 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 that 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 BANVI as security for any debt, BANVI 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.

ARTICLE V

Effective Date; Termination;
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Bank and of BANVI thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Loan Agreement shall terminate in accordance with its terms; or
- (ii) a date 294 months after the date of this Agreement.

(b) If the Loan Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Bank shall promptly notify BANVI of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

440098 (ITT)

For BANVI:

6° Avenida 1-22
Zona 4
Guatemala, Guatemala

Cable address:

BANVIGUAT

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of BANVI may be taken or executed by BANVI's President or such other person or persons as BANVI's President shall designate in writing.

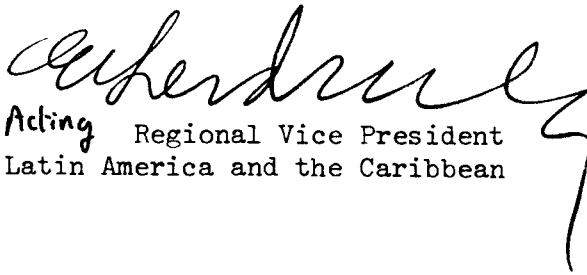
Section 6.03. BANVI shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of the person or persons who will, on behalf of BANVI, take any action or execute any documents required or permitted to be taken or executed by BANVI pursuant to any of the provisions of this Agreement.

Section 6.04. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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


Acting Regional Vice President
Latin America and the Caribbean

BANCO NACIONAL DE LA VIVIENDA

By


Authorized Representative

SCHEDULE 1

Procurement

A. International Competitive Bidding

1. (a) Contracts for the purchase of goods or for civil works shall be procured in accordance with procedures consistent with those set forth in Part A of the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in August 1975 (hereinafter called the Guidelines), on the basis of international competitive bidding.

(b) All civil works shall be executed over a period of three and one-half years involving three phases of development. Civil works contracts shall be tendered separately for each phase and for each site. However, contractors shall be permitted to bid for one or more civil works contract to be let under each phase.

(c) Subject to (b) above, for bidding purposes, contracts included in this Part A shall be grouped, to the extent practicable, in such manner as shall be agreed between the Bank and BANVI prior to issuing the invitation to bid, so as to permit bulk procurement and to encourage competitive bidding.

(d) The Borrower shall take all necessary steps to utilize the Emergency Procedures in a manner consistent with the Guidelines.

2. Bidders for the works included in Part A of the Project shall be prequalified as described in paragraph 1.3 of Part A of the Guidelines.

B. Evaluation and Comparison of Bids; Preference for
Manufacturers Established in the territories of the member
countries of the Central American Common Market

1. For the purpose of evaluation and comparison of bids for the supply of goods:

- (i) bidders shall be required to state in their bid the c.i.f. (port of entry) price for imported goods, or the ex-factory price for domestically-manufactured goods;
- (ii) customs duties and other import taxes on imported goods, and sales and similar taxes on domestically-supplied goods, shall be excluded; and
- (iii) the cost to BANVI of inland freight and other expenditures incidental to the delivery of goods to the place of their use or installation shall be included.

2. Bids shall be compared in accordance with the following rules:

(a) 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 will be deemed to be a "Non-Central American Bid";

(b) the bid price under a Central American Bid will 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 site designated in the specifications; and

(c) for the purpose of comparing any Non-Central American Bid with any Central American Bid, the price under a Non-Central American Bid will be the sum of the following amounts:

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

3. The bidding documents shall clearly indicate the margin of preference to be granted.

C. Review of Procurement Decisions by the Bank

1. Review of prequalification. BANVI shall, before qualification is invited, inform the Bank in detail of the procedure to be followed, and shall introduce such modifications in said procedure as the Bank shall reasonably request. The list of prequalified bidders, together with a statement of their qualifications and of the reasons for the exclusion of any applicant for prequalification shall be furnished by BANVI to the Bank for its comments before the applicants are notified of BANVI's decision, and BANVI shall make such additions to, deletions from, or modifications in, the said list as the Bank shall reasonably request.

2. Review of invitations to bid and of proposed awards and final contracts:

With respect to all contracts for: (i) civil works estimated to cost the equivalent of \$100,000 or more; and (ii) vehicles and equipment estimated to cost the equivalent of \$25,000 or more:

(a) Before bids are invited, BANVI 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) After bids have been received and evaluated, BANVI 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 shall furnish to the Bank, in sufficient time for its review, a detailed report by the Project Unit on the evaluation and comparison of the bids received, together with the recommendations for award of the said Project Unit 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 BANVI and state the reasons for such determination.

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

(d) 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.

3. With respect to each contract to be financed out of the proceeds of the Loan and not governed by the preceding paragraph, BANVI shall furnish 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, two conformed copies of such contract, together with the analysis of the respective 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 BANVI and state the reasons for such determination.

SCHEDULE 2

The Project Unit

1. The Project Unit will operate under the Vice President for Reconstruction, will report directly to him through the Project Administrator referred to in 3 (a) below, and will be staffed as indicated in paragraph 3 below.

2. The Project Unit will have, inter alia, the following functions:
 - (a) organization of the communities to be served;

 - (b) training for Beneficiaries and, if required, for the borrowers of loans under Parts B (2) and (3) of the Project;

 - (c) initiation of self-help and mutual aid works;

 - (d) promotion of opportunities for small business enterprises;

 - (e) appointment of members of its staff to the Selection Committee;

 - (f) Project supervision, costing, control, accounting and procurement; and

 - (g) liaison with the consultants referred to in Section 2.05 of this Agreement.

3. The Project Unit will be staffed as indicated below; such staff to be charged, inter alia, with the following specific functions:

- (a) a Project Administrator: coordination of Project activities;
- (b) a Senior Engineer: overall Project supervision and liaison with consultants;
- (c) an Architect/Planner: revision of needs of Project materials loans and of Project architectural designs;
- (d) an Accountant/Financial Analyst: Project accounting and liaison with BANVI's Accounting Department;
- (e) a Business Promotion Specialist: promotion of development and organization of small-scale (artesanía) businesses among Beneficiaries;
- (f) a Construction Materials Manufacturing Specialist: training of Beneficiaries in on-site manufacturing of building materials;
- (g) a Senior Social Worker: development of basic criteria for the selection of Beneficiaries, carrying on interviews with prospective Beneficiaries and setting up of self-help and mutual aid Beneficiaries groups;

(h) a Community Development Worker: organization of Beneficiaries work groups and training of such groups for cooperative efforts;

(i) an Architect/Contractor: preparation of Project expansion plans and development of various techniques and materials for expansion of Project site facilities and structures; and

(j) three Resident Field Engineers: each one to supervise each Project site.

SCHEDULE 3

Operating Policies and Procedures

I. Allocation of Plots under Part A (1) of the Project

1. Information concerning the availability of plots will be disseminated by BANVI prior to the completion of such plots, through the mass media, public meetings or other means satisfactory to the Bank.

2. BANVI will receive applications for such plots, such applications to be evaluated by the Selection Committee which will prepare a list of qualified applicants in accordance with criteria satisfactory to the Bank which will include the following: (a) applicant and members of the applicant's household will not own a house at the time of the filing of the application, the fulfillment of such criterion to be evidenced, inter alia, in the manner described in Article 49 of BANVI's Organic Law; (b): (i) the applicant's household has been displaced due to loss of dwelling or shelter as a direct consequence of the Earthquake, or (ii) the applicant's residency had been established in squatter settlement or under inadequate housing conditions, for a period of not less than two years prior to the Earthquake; (c) the applicant's household aggregate monthly income will not exceed one hundred and fifty Quetzales (Q150); (d) the applicant's household will be able to afford a monthly payment ranging between nine and twenty-four Quetzales (9 to 24Q) for purposes of shelter and other utilities; (e) the applicant and the members of the applicant's household

will have the intention to reside on the assigned plot with the understanding that the housing unit to be provided to him will not be a completed dwelling; (f) the applicant and the members of the applicant's household will have the willingness and ability to undertake the completion of the housing unit; (g) BANVI will reserve its right of first refusal on every plot transferred to every applicant; provided, however, that such right shall cease and terminate after a period of not less than ten years from the date on which the title on each such plot is vested on each such applicant; and (h) the applicant or the applicant's household will have to participate in such mutual help and community development activities as determined by BANVI. The applicant and the members of the applicant's household will be screened by the Selection Committee which may, in addition, consider special construction/ leadership skills. If the applicants that meet, at the satisfaction of the Selection Committee, the above criteria exceed the number of plots available, the final selection will be made by lottery. The final list of allottees will be confirmed by the Selection Committee.

3. Every plot will be transferred to allottees by means of a freehold sale secured by a mortgage. The price of the purchase of each plot will: (i) include the cost of land, site development, on-site infrastructure, community facilities, building materials loans, core housing (where appropriate), proportionate share of off-site infrastructure and administrative and capital surcharges, all as allocated by BANVI to such plot; (ii) be determined so as to ensure BANVI the satisfactory recovery of BANVI's production costs, as shown in (i) above, in respect of each such plot; and (iii) be wholly financed out of loans under Part B (1) of the Project, which

will have a repayment term of twenty (20) years, including a grace period not exceeding two (2) years during which the Beneficiaries will pay interest; the rate of interest, charged on outstanding balances of principal, will be of four per cent (4%) per annum.

4. Loans to assist every Beneficiary in financing the purchase of building materials will have the same terms and rate of interest referred in 3 (iii) above.

II. Loan Program under Part B (2) of the Project

1. Information concerning the availability of loans will be adequately advertised by BANVI.
2. Every borrower of loans under Part B (2) of the Project will have to fulfill the following criteria: (a) applicant's dwelling has been totally or partially destroyed, or damaged, as a direct consequence of the Earthquake; (b) applicant or members of the applicant's household will: (i) be in possession of the plot on which the applicant's dwelling will be rebuilt or repaired; (ii) have an aggregate monthly income of not more than one hundred and fifty Quetzales (Q150); (iii) have, in the aggregate, the financial ability to afford the monthly payments under the applicable loan agreement with each respective Borrower; and (iv) have the intention to reside for a reasonable period of time in the dwelling to be rebuilt or repaired.
3. Every loan under Part B (2) of the Project will: (a) not exceed the aggregate amount of one thousand Quetzales (Q1,000) and will be made in advances not exceeding two hundred Quetzales (Q200)

each; (b) have a repayment term of twenty (20) years, including a grace period not exceeding two (2) years during which the borrowers will pay interest; and (c) bear an interest rate of four percent (4%) per annum on outstanding balances of principal.

4. All purchases, payments and works to be financed out of the proceeds of loans made under Part B (2) of the Project will be supervised by the Participating Banks or, in some instances of 6 (b) below, by BANVI.

5. Every Participating Bank Contract will include the necessary provisions to comply with paragraphs 2, 3, and 4 above and with Sections 2.08 (b) and (d), 2.09 (b), 4.01 (b) and 4.02 of this Agreement.

6. Participating Bank Contracts may assume the following modalities, account being taken of the number of loans to be made, the economic utilization of the existing resources and facilities, and the better implementation of Part B (2) of the Project: (a) In the case of every Participating Bank Contract with Participating Banks other than Banco de Guatemala, the applicable Participating Bank will assume the credit risk against the payment of a fee to be determined by agreement between BANVI and such Participating Bank; (b) In the case of every Participating Bank Contract with Banco de Guatemala, BANVI will make the loans to the borrowers using the services and facilities of Banco de Guatemala, and will have such rights to use such services and facilities as will be agreed upon between Banco de Guatemala and BANVI in respect of each such Participating Bank Contract.

III. Loans under Part B (3) of the Project

1. Criteria for eligibility for such loans will be determined by agreement between the Bank and BANVI.

2. After such criteria shall have been established, BANVI shall receive and evaluate applications for such loans and shall be responsible for (i) their approval; and (ii) subject to Section 2.04 (c) of this Agreement, for the establishment of the specific terms of such loans in a manner consistent with the sound economic and financial analysis to be carried out for each such loan application.