
LOAN NUMBER 7044-GU

Loan Agreement

(Competitiveness Project)

between

REPUBLIC OF GUATEMALA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *May 23*, 2002

LOAN NUMBER 7044-GU

LOAN AGREEMENT

AGREEMENT, dated _____, 2002, between
REPUBLIC OF GUATEMALA (the Borrower) and INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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

- (a) "*Banco de Guatemala*" means the Borrower's Central Bank;
- (b) "Cluster" means a group of businesses comprised of, *inter alia*, suppliers, producers, distributors and systems support within the same economic sector which have agreed to pursue one or more programs to increase the international competitiveness of said economic sector;
- (c) "Competitiveness Plan" means any of the plans referred to in Part E (a) of the Project;

(d) "Eligible Categories" means categories (1) through (7) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) "Eligible Entity" means an entity with less than 50 employees or a group of entities with less than 50 employees each which are engaged in manufacturing, commerce or services and meet the criteria set forth in the Operational Manual to participate under Part E (b) of the Project;

(f) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(g) "Eligible Micro-enterprise" means an entity with less than 5 employees which meets the criteria set forth in the Operational Manual to participate under Part E (c) of the Project;

(h) "Executive Committee" means the committee (comprised of public and private sector representatives) of the *Programa Nacional de Competitividad* (PRONACOM), the Borrower's National Competitiveness Program, established pursuant to Presidential Accord No. 942-99 (as defined below) for the purposes of setting forth the policies to carry out PRONACOM (as defined herein);

(i) "Grant" means a grant made or proposed to be made by the Borrower to an Eligible Entity out of the proceeds of the Loan for purposes of financing up to 50% of the implementation cost of the activities within a Competitiveness Plan (as defined above) or \$50,000, whichever is lower;

(j) "Grant Agreement" means any of the agreements referred to in Section 3.04 (d) of this Agreement;

(k) "Implementation Letter" means the letter of even date herewith from the Borrower to the Bank setting forth the Project indicators;

(l) "ISO" means the International Standards Organization, an international entity which sets standards and norms;

(m) "Management Agreement" means the agreement referred to in Section 3.04 (a) of this Agreement;

(n) "Management Entity" means the entity referred to in Section 3.04 (a) of this Agreement;

(o) "MINECO" means *Ministerio de Economía*, the Borrower's Ministry of Economy;

(p) "Operational Manual" means the manual referred to in Section 3.04 (c) of this Agreement;

(q) "Presidential Accord No. 942-99" means *Acuerdo Gubernativo* No. 942-99, the Borrower's Presidential Accord No. 942-99 of December 20, 1999 which established PRONACOM and the Executive Committee (as defined above), as such Presidential Accord has been amended to the date of this Agreement;

(r) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(s) "PRONACOM Management Unit" means the unit referred to in Section 3.05 (a) (i) of this Agreement;

(t) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(u) "Supervisory Committee" means the committee referred to in Section 3.05 (a)(ii) of this Agreement; and

(v) "Voucher" means a grant made or proposed to be made by the Borrower to an Eligible Micro-enterprise in the form of a promissory note in favor of a third party service provider for purposes of financing up to 80% of the cost of the services provided by said provider under Part E (c) of the Project.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to twenty million three hundred thousand Dollars (\$20,300,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 for: (a) amounts

disbursed (or if the Bank shall so agree, to be disbursed) by the Borrower under a Grant; (b) amounts paid (or if the Bank shall so agree, to be paid) by the Borrower under a Voucher; and (c) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts A, B, C, D, E (a) and (d), F and G of the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

Section 2.03. The Closing Date shall be June 30, 2005 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to two hundred three thousand Dollars (\$203,000). The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest, commitment and other charges shall be payable semiannually in arrears on June 15 and December 15 in each year.

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

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out:

- (i) Parts A, B, C, D, F and G of the Project through the PRONACOM Management Unit; and
- (ii) Part E of the Project through the PRONACOM Management Unit with the participation of the Management Entity, all with due diligence and efficiency and in conformity with appropriate technical, administrative, trade, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) (ii) of this Section, the Borrower shall provide, promptly as needed, as counterpart funds for the Project, an amount of at least \$1,700,000 equivalent.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower, through the PRONACOM Management Unit, shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. (a) For purposes of assisting the Borrower in the administration and supervision of Part E of the Project, the Borrower, through the PRONACOM Management Unit, shall enter into an agreement (the Management Agreement) with an entity (the Management Entity) with qualifications and experience acceptable to the Bank, on terms and conditions satisfactory to the Bank.

(b) (i) The Borrower, through the PRONACOM Management Unit, shall exercise its rights under the Management Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower, through the PRONACOM Management Unit, shall not assign, amend, abrogate, terminate, waive or fail to enforce the Management Agreement or any provision thereof.

(c) The Borrower, through the PRONACOM Management Unit, shall carry out Part E of the Project in accordance with a manual (the Operational Manual), acceptable to the Bank, said manual to include, *inter alia*: (i) the criteria for selecting Eligible Entities and Eligible Micro-enterprises; (ii) the criteria for approving Competitiveness Plans; (iii) the criteria for approving Vouchers and the terms and conditions of said vouchers; (iv) the disbursement and procurement procedures governing Part E (b) and (c) of the Project; and (v) a sample of the terms and conditions of a Grant Agreement and a Voucher.

(d) Upon approval of a Competitiveness Plan, the Borrower, through the PRONACOM Management Unit, shall enter into an agreement (the Grant Agreement) with the corresponding Eligible Entity to enable said entity to carry out its Competitiveness Plan, on terms and conditions satisfactory to the Bank, including, *inter alia*, the obligation of said entity to finance at least 50% of the cost of its Competitiveness Plan.

(e) (i) The Borrower, through the PRONACOM Management Unit, shall exercise its rights under each Grant Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower, through the PRONACOM Management Unit, shall not assign, amend, abrogate, terminate, waive or fail to enforce any Grant Agreement or any provision thereof.

Section 3.05. (a) The Borrower shall:

- (i) establish within MINECO, and thereafter maintain and operate at all times during Project implementation, a management unit (the PRONACOM Management Unit) with functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility to: (A) implement the directives issued by the Executive Committee in connection with the carrying out of the Project; and (B) assist the Borrower in the monitoring and overall supervision of the Project; and
- (ii) establish within the PRONACOM Management Unit, and thereafter maintain and operate at all times during Project implementation, a supervisory committee (the Supervisory Committee) with functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility to assist the Borrower in the supervision of Part E (b) and (c) of the Project.

(b) The Borrower shall ensure that the PRONACOM Management Unit is, at all times during the implementation of the Project, headed by a managing director to be appointed by the Executive Committee and assisted by staff in adequate numbers, with qualifications and experience satisfactory to the Bank.

Section 3.06. The Borrower, through the PRONACOM Management Unit, shall:
(a) not later than November 30 of each year of Project implementation, starting in the year 2001, prepare and furnish to the Bank a plan of action, acceptable to the Bank, setting forth the Project activities to be carried by the Borrower during the calendar year

following the date of presentation of said plan; and (b) thereafter carry out said plan in accordance with its terms.

Section 3.07. The Borrower, through the PRONACOM Management Unit, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than 30 days after the end of each calendar quarter, starting with the report due for the third quarter of the year 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar quarter preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the calendar quarter following such date; and

(c) review with the Bank, by July 31, 2002, or such later date as the Bank shall request, the pertinent reports referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of each said report and the Bank's views on the matter.

Section 3.08. The Borrower, through the PRONACOM Management Unit, shall, prior to providing technical assistance to a Cluster under Part G.1 (a) of the Project, enter into an agreement with said Cluster on terms and conditions acceptable to the Bank, including, *inter alia*, the obligation of said Cluster to finance up to 50% of the cost of the technical assistance to be provided under said Part of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish within the PRONACOM Management Unit, and thereafter at all times maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower, through the PRONACOM Management Unit, shall:
- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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 the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including as part of the information to be provided in such report, a management letter concerning the Borrower's internal controls; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower, through the PRONACOM Management Unit, shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of

expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower, through the PRONACOM Management Unit, shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than November 30, 2001, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower, through the PRONACOM Management Unit, shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The proposed law referred to in Part A.1 of the Project, if enacted, or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to materially and adversely affect, in the opinion of the Bank, the ability of the Borrower to carry out Part A.3 of the Project.

(b) The proposed law referred to in Part C.4 of the Project, if enacted, or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to materially and adversely affect, in the opinion of the Bank, the ability of the Borrower to carry out Part C.6 of the Project.

(c) Presidential Accord No. 942-99 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to materially and adversely affect, in the opinion of the Bank, the ability of the Borrower to carry out the Project.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that any of the events specified in paragraphs (a) or (b) or (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Operational Manual has been approved by the Bank;

(b) a financial management system has been established as provided in Section 4.01 (a) of this Agreement;

(c) the external auditors referred to in Section 4.01 (b) (i) of this Agreement have been hired by the Borrower, in a manner acceptable to the Bank;

(d) the PRONACOM Management Unit has been established and staffed as provided by Section 3.05 of this Agreement; and

(e) the Supervisory Committee has been established as provided in Section 3.05 (a) (ii) of this Agreement.

Section 6.02. The date August 21, 2002 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Public Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Finanzas Públicas
8a Avenida y 21 Calle
Centro Cívico
Zona 1, Guatemala

Cable address:

MINFIN
Guatemala, Guatemala

Facsimile:

(502) 230-0333

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:

Facsimile:

INTBAFRAD
Washington, D.C.

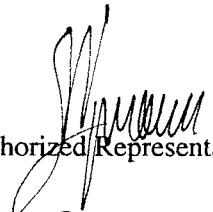
248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

REPUBLIC OF GUATEMALA

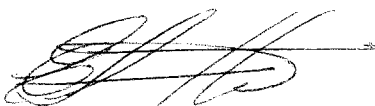
By


Authorized Representative

Eduardo Weymann

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By


Regional Vice President
Latin America and the Caribbean

Eduardo Somensatto

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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:

	<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1)	Works	400,000	100% of foreign expenditures and 80% of local expenditures
(2)	Goods	1,900,000	100% of foreign expenditures and 80% of local expenditures
(3)	Consultants' services		
	(a) under Parts A, B, C, D, F and G.1 (b) and (c) and G.2 of the Project	6,750,000	100%
	(b) under Part E (a) and (d)	1,000,000	100%
	(c) under G.1 (a) of the Project	200,000	50%
(4)	Training	2,000,000	100%
(5)	Grants	5,000,000	100% of amounts disbursed
(6)	Vouchers	1,000,000	100% of the amount of the Voucher

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(7) Operational Expenditures	1,847,000	100% until disbursements under this Category have reached an aggregate amount equivalent to \$800,000; 67% until disbursements under this Category have reached an aggregate amount equivalent to \$1,400,000; and 33% thereafter
(8) Fee	203,000	Amount due under Section 2.04 of this
(9) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
TOTAL	<hr style="width: 100%;"/> 20,300,000 <hr style="width: 100%;"/>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "Training" means expenditures (other than those for Consultants' services) incurred by the Borrower to finance the transportation costs and per-diem of trainees and the leasing of training facilities; and

(d) the term "Operational Expenditures" means incremental recurrent expenditures incurred by the Borrower in connection with the carrying out of the Project, including salaries of the PRONACOM Management Unit, transportation costs and per-diem for management and supervision of the Project and the fee to be paid by the

Borrower to external auditors in connection with the carrying out of the audits mentioned in Section 4.01 (b) of this Agreement.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the amount of \$2,000,000, may be made in respect of Categories (1) through (7) set forth in the table in paragraph 1 of this Part A on account of payments made for expenditures incurred within twelve months before the date of this Agreement;

(b) payments made for expenditures under Categories (3)(b), (5) and (6) of the table in paragraph 1 of this Part A unless the Management Agreement has been signed by the parties thereto; and

(c) payments made for expenditures under Category (5) of the table in paragraph 1 of this Part A for each Grant unless: (i) the condition referred to in paragraph 3(b) of this Section has been met; and (ii) the corresponding Grant Agreement has been signed by the parties thereto.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods costing less than \$150,000 equivalent each, with the exception of the first two contracts for goods procured under Part C.1 (a) of Section I of Schedule 4 to this Agreement; (b) contracts for works costing less than \$150,000 equivalent each, with the exception of the first two contracts for works procured under Part C.1 (b) of Section I of Schedule 4 to this Agreement; (c) contracts for the employment of consulting firms costing less than \$100,000 equivalent each; (d) contracts for the employment of individual consultants costing less than \$50,000 equivalent each; and (e) Training and Operational Expenditures set forth in Categories (4) and (7) of the table in paragraph 1 of this Part A, respectively, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in *Banco de Guatemala*, on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports**

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equal to \$1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Special Account's Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Special Account's Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

 - (b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan allocated to said Special Account's Eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Loan allocated to said Categories, shall equal the equivalent of twice the amount of the Special Account's Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to said Categories shall follow such procedures as the Bank

shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Made
On the Basis of Project Management Reports**

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.
2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed an amount equal to \$3,600,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to foster economic growth and reduce poverty in Guatemala by assisting primarily micro and small businesses in expanding their activities, creating employment opportunities and generating higher income.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Domestic Competition

1. Preparation of a draft law, acceptable to the Bank, which would, if enacted, strengthen the Borrower's competition framework and foster economic efficiency and consumer welfare, said law to primarily establish provisions to protect competition against anti-competitive business practices and to create a competition commission with a structure, functions and responsibilities acceptable to the Bank.
2. Design of draft regulations to the law mentioned in Part A.1 above.
3. If the draft law referred to in Part A.1 above is enacted, provision of technical assistance to the competition commission mentioned in Part A.1 above in order to enable it to commence its operations, including the provision of training to staff and the acquisition and utilization of goods required therefor.
4. Design and implementation of a strategy to inform the public in general, Borrower's officials and representatives of the private sector and the academia with respect to the contents of the proposed draft law and the functions and responsibilities of the commission referred to in Part A.1 above, through, *inter alia*, the carrying out of seminars, workshops and conferences.
5. Design and implementation of a corporate competition policy program, said program to include, *inter alia*, the carrying out of analyses and case studies of anti-competitive business practices.

Part B: Foreign Investment

1. Establishment of a foreign direct investment promotion council with a structure, functions and responsibilities acceptable to the Bank.
2. Strengthening of the institutional and administrative capacity of the council mentioned in Part B.1 above through the provision of technical assistance and training and the acquisition and utilization of goods required therefor.
3. Carrying out of an analysis of the legal, regulatory and institutional framework governing foreign investment registration in order to identify administrative and procedural barriers to said framework and, thereafter, design and implement a plan (acceptable to the Bank) to eliminate said barriers and to introduce, if needed, regulatory changes to reduce the cost and time of foreign investment registration in Guatemala, including the provision of training required therefor.
4. Carrying out of an analysis of the legal, regulatory and institutional framework governing the transport of exported goods (including, related production of inputs for said exports) in order to identify barriers to said framework and, thereafter, design and implement a plan (acceptable to the Bank) to eliminate said barriers and to introduce, if needed, regulatory changes to reduce the cost and time of transport of exported goods, including the provision of training required therefor.

Part C: In-firm Skills Training and Information Markets

1. Carrying out of an analysis of the current framework governing the application and administration of the payroll training levy and thereafter, design and implement a plan (acceptable to the Bank) to improve the application and administration of said levy.
2. Design and implementation of a training promotion campaign targeted, in particular, to small businesses for purposes of informing said businesses of, *inter alia*, the benefits of in-firm training, the public and private sources of training and the procedures to be followed in order to benefit from said training.
3. Design and implementation of a system of extension services for purposes of assisting individual businesses in assessing their in-firm training needs, establishing their training policies and identifying training provider options.

4. Preparation of a draft law, acceptable to the Bank, which would, if enacted, strengthen the Borrower's statistics system, through primarily the establishment of a national statistics superintendency with a structure, functions and responsibilities acceptable to the Bank.
5. Design of regulations to the law mentioned in Part C.4 above.
6. If the draft law referred to in Part C.4 above is enacted, provision of technical assistance to said superintendency to enable it to commence its operations, including the provision of training to staff and the acquisition and utilization of goods required therefor.
7. Design and implementation of a strategy to inform the public in general, Borrower's officials and representatives of the private sector and the academia with respect to the contents of the proposed draft law and the functions and responsibilities of the superintendency referred to in Part C.4 above, through, *inter alia*, the carrying out of seminars, workshops and conferences.

Part D: Product Quality

1. Carrying out of a training program in quality assurance practices for small businesses and selected public entities in accordance with criteria acceptable to the Bank.
2. Establishment of a standards and conformity information center with a structure, functions and responsibilities acceptable to the Bank, said center to be responsible for, *inter alia*, providing information on quality requirements of export markets for Guatemalan products.
3. Design of a program for certification of non-traditional exports to enhance the international competitiveness of said exports, said program to include, *inter alia*, ISO-14000 for sustainable management of tropical woods used in exports, sustainable tourism practices and guidelines for the carrying out of social assessments of child labor and factory working conditions.
4. Strengthening of the institutional capacity of the Borrower's national quality system through the provision of technical assistance and training and the acquisition and utilization of goods required therefor.

Part E: Competitiveness Learning and Innovation

Carrying out of a competitiveness learning and innovation program which consists, *inter alia*, of:

- (a) the provision of technical assistance to potential Eligible Entities in the design and preparation of their competitiveness plans, said plans to include business development activities for productive purposes in pre-competitive learning and innovation, acceptable to the Bank;
- (b) the provision of Grants to Eligible Entities for the purpose of assisting said entities in the implementation of their Competitiveness Plans;
- (c) the provision of Vouchers to Eligible Micro-enterprises for the purpose of enabling said micro-enterprises to benefit from the provision of business development services, acceptable to the Bank; and
- (d) the promotion of said program within the business community in Guatemala.

Part F: Information Technology-Based Business Development Services

Design and implementation of a pilot program that will provide information technology-based business development services, said program to include, *inter alia*, the construction of about 10 community-based centers and a management support hub, the provision of technical assistance to develop product services and carry out impact evaluation analyses of said program and the provision of training required therefor.

Part G: Business Cluster and Social Responsibility

1. Carrying out of a Cluster program for businesses which consists of, *inter alia*:
 - (a) the provision of technical assistance to facilitate the organization of Clusters and carry out initial diagnostics and benchmark assessments of said Clusters;
 - (b) the carrying out of assessments of cross-Cluster issues in public policies and international competitiveness; and
 - (c) the promotion and dissemination of said program within the business community in Guatemala.

2. Carrying out of a business social responsibility program which consists of, *inter alia*, the carrying out of workshops, case studies and cross-country study tours to assist large-scale businesses to develop business relationships with: (a) small businesses for the purpose of increasing said small businesses' productivity and income levels; and (b) communities located in the area in which said large-scale businesses operate for the purpose of developing their socio-economic interests.

* * *

The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date[, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each June 15 and December 15 Beginning June 15, 2006 through June 15, 2017	4.17 %
On December 15, 2017	4.09 %

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

- (a) Goods estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$1,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines;

(b) works estimated to cost \$150,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines; and

(c) procurement of goods and works under this part shall be carried out using standard bidding documents acceptable to the Bank.

2. Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, at the Borrower's option, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract for goods to be procured under Part B of this Section; (b) the first two contracts for goods to be procured under Part C.1 (a) of this

Section; and (c) the first two contracts for works to be procured under Part C.1 (b) of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Commercial Practices

Consultants' services to assist: (a) Eligible Entities in carrying out their Competitiveness Plans; and (b) Eligible Micro-enterprises under Part E (c) of the Project, may be procured in accordance with commercial practices acceptable to the Bank.

2. Individual Consultants

Consultants' services for specialized activities under the Project, as approved by the Bank, that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$3,700,000 equivalent, shall be

procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost less than the equivalent of \$100,000, the terms of reference of the consulting firms shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$20,000 or more but less than \$50,000 equivalent, the terms of reference of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.