
LOAN NUMBER 722 GU

Loan Agreement

(Livestock Project)

BETWEEN

REPUBLIC OF GUATEMALA

AND

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

DATED FEBRUARY 10, 1971

LOAN AGREEMENT

AGREEMENT, dated *February 10*, 1971, between the REPUBLIC OF GUATEMALA (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS (A) The Borrower has requested the Bank to assist in the financing of the Project described in Schedule 3 to this Agreement by making the Loan as hereinafter provided;

(B) Banco de Guatemala, according to Article 111 of Legislative Decree No. 215 of December 11, 1945, as amended, will participate, with the Borrower's assistance, in the carrying out of Part A of the Project and, to that effect, the Borrower will make available to Banco de Guatemala the proceeds of the Loan as hereinafter provided; and

(C) The Bank has agreed, on the basis *inter alia* of the foregoing, to make the Loan to the Borrower upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 31, 1969, with the same force and effect as if they were fully set forth herein, subject, however, to the deletion of Section 5.01 thereof (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank, as so modified, being hereinafter called the General Conditions).

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

(a) "Banco de Guatemala" means the central bank of the Borrower established by Legislative Decree No. 215 of December 11, 1945;

(b) "PCI" means a financial institution referred to in Section 3.03 (b) of this Agreement which participates in Part A of the Project;

(c) "*Normas*" means the regulations the Monetary Board shall issue for the purpose of Part A of the Project, according to Schedule 7 to this Agreement;

(d) "Operating Contract" means the contract the Borrower and Banco de Guatemala shall enter into in accordance with Section 3.02 of this Agreement;

(e) "Subsidiary Loan" means a loan made or proposed to be made by Banco de Guatemala to a PCI for each sub-loan pursuant to the *Normas*;

(f) "beneficiary" means a cattle-producer to which a PCI proposes to make or has made a sub-loan;

(g) "sub-loan" means a long-term loan made or proposed to be made by a PCI to a beneficiary and eligible for reimbursement out of the proceeds of a Subsidiary Loan;

(h) "Livestock Project Account" means the special account the Borrower shall cause Banco de Guatemala to open on its books in accordance with Section 3.03 (a) of this Agreement;

(i) "Project Director" means the expert the Borrower shall employ in accordance with Section 3.07 (b) of this Agreement;

(j) "Livestock Development Plan" means the description of the beneficiaries' investment project as approved by, or under the authority of, the Project Director;

(k) "Technical Service Unit" means the Unit referred to in Section 3.07 (a) of this Agreement; and

(l) "Project Credit Committee" means the Committee referred to in Section 3.09 of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to four million dollars (\$4,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement as such Schedule shall be amended from time to time, for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed under the Loan Agreement; provided, however, that, except as the Bank shall otherwise agree, no withdrawal shall be made on account of expenditures in the territories of any country which is not a member of the Bank (other than Switzerland) or for goods produced in, or services supplied from, such territories.

Section 2.03. The Closing Date shall be December 31, 1975 or such other date as shall be agreed between the Borrower and the Bank.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. The Borrower shall pay interest at the rate of seven and one-quarter per cent ($7-1/4\%$) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

Section 2.08. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VIII of the General Conditions.

Section 2.09. The *Ministro de Hacienda y Crédito Público* of the Borrower and such other person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 8.10 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower shall carry out the Project and shall cause Banco de Guatemala to participate in the carrying out of Part A of the Project with

due diligence and efficiency and in conformity with sound agricultural, administrative, economic and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.02. The Borrower shall enter into a contract with Banco de Guatemala, under terms and conditions satisfactory to the Bank, whereby, for purposes of carrying out the Project, the Borrower shall make available to Banco de Guatemala: (i) the proceeds of the Loan, and (ii) the equivalent in local currency of one million five hundred eighty thousand dollars (\$1,580,000) or such amounts as shall be required to process promptly all applications for withdrawals under Subsidiary Loans and to cover the Technical Service Unit's costs. The Borrower shall exercise its rights under said contract in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive said contract or any provision thereof.

Section 3.03. The Borrower shall cause Banco de Guatemala:

(a) to open and maintain on its books a Livestock Project Account and the necessary sub-accounts in respect of Part A of the Project, to be used exclusively for purposes of the Project, to which it shall credit (i) the amounts made available to it by the Borrower according to Section 3.02 of this Agreement, and (ii) the amounts received on account of repayment of capital and payment of interest and other charges under Subsidiary Loans, and from which it shall withdraw amounts required (i) to disburse Subsidiary Loans, to the extent such amounts are not required to service the Loan, and (ii) to cover the Technical Service Unit's costs; and

(b) to invite private and public banks to participate in Part A of the Project.

Section 3.04. The operating policies and procedures for the carrying out of Part A of the Project shall be as set forth in Schedule 4 to this Agreement, as they may be amended from time to time by agreement between the Borrower and the Bank.

Section 3.05. The Borrower shall take and shall cause all its agencies to take all action which shall be necessary on their part to enable Banco de Guatemala to perform all of its obligations under the Operating Contract and shall not take or permit to be taken any action which might interfere with such performance.

Section 3.06. Except as the Bank shall otherwise agree:

(a) the goods and services financed out of the proceeds of sub-loans shall be procured by the beneficiaries through regular commercial channels from responsible suppliers; and

(b) vehicles and equipment to be financed out of Category II of the allocation of the proceeds of the Loan set forth in Schedule 1 to this Agreement shall be procured in accordance with sound commercial procurement practices, from suppliers with efficient servicing facilities and sufficient spare parts stocks located and available within the territories of the Borrower.

Section 3.07. Unless the Bank shall otherwise agree, the Borrower shall:

(a) establish and maintain, during the disbursement of the Loan, the Technical Service Unit referred to in Schedule 5 to this Agreement;

(b) employ, during the disbursement of the Loan, a qualified and experienced specialist, acceptable to the Bank, upon terms and conditions satisfactory to the Bank, to be the Project Director and head the Technical Service Unit with such responsibility, authority and duties as shall be satisfactory to the Bank, including those set forth in Schedule 6 to this Agreement;

(c) employ or cause the Technical Service Unit technical staff to be employed on such terms and conditions as shall be required to retain the services of technicians with such qualifications and in such numbers as the Project Director shall reasonably request;

(d) cause that such members of the Technical Service Unit staff as the Project Director shall designate be granted, during the second and third years after the Effective Date, such fellowships for training abroad as the Project Director shall reasonably recommend;

(e) establish and maintain, during the disbursement of the Loan, a Project Commission to serve as an advisory body for the purposes of coordinating Project activities, ensuring intra-governmental cooperation in the carrying out of the Project, and receiving the advice of the Project Director on any major Project policy issue. Unless the Borrower and the Bank shall otherwise agree, the Project Commission shall be composed of the Minister of Agriculture (chairman), the Minister of Finance, the President of Banco de Guatemala, the Secretary-General of the National Planning Council, the Chairman of the Bankers Association, a local representative in the Project area of the beef ranchers who would qualify for participation in the Project, and the Project Director who will act as the Commission's Executive Secretary. The Project Commission shall hold quarterly

ordinary meetings and shall hold extraordinary meetings whenever the Project Director or any other member of the Commission shall so request; and

(f) complete, before the end of the second year after the Effective Date, a survey of beef marketing facilities and a study of procedures and policies related to such marketing to identify required marketing policy changes and areas of marketing infrastructure development, under terms of reference prepared, and with personnel selected, in consultation with the Bank, and promptly furnish to the Bank the results of such surveys and studies.

Section 3.08. The Borrower shall or shall cause Banco de Guatemala to: (i) maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Loan, and to disclose the use thereof in the Project; (ii) enable the Bank's representatives to inspect the Project, the ranches benefitting from sub-loans, the goods financed out of the proceeds of the Loan and any relevant records and documents; (iii) furnish to the Bank all such information as the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan and the goods and services financed out of such proceeds; and (iv) furnish to the Bank, upon request, copies of any of the agreements providing for a sub-loan.

Section 3.09. The Borrower shall establish and maintain, during the disbursement of the Loan, a Project Credit Committee for purposes of Part A of the Project, composed of the Vice-Minister of Agriculture, the Vice-Minister of Finance and the Manager of Banco de Guatemala.

ARTICLE IV

Other Covenants

Section 4.01. (a) It is the mutual intention of the Borrower and the Bank that no other external debt shall enjoy any priority over the Loan or the Bonds by way of a lien on governmental assets.

(b) To that end the Borrower (i) represents that at the date of this Agreement no lien exists on any governmental assets as security for any external debt except as otherwise disclosed in writing by the Borrower to the Bank, and (ii) undertakes that if any such lien shall be created, it will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds and in the creation of any such lien express provision will be made to that effect.

(c) The foregoing representation and undertaking shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

As used in this Section, the term "governmental assets" means assets of the Borrower or of any of its political subdivisions or of any agency of the Borrower or of any such political subdivision, including Banco de Guatemala or any institution performing the functions of a central bank for the Borrower.

Section 4.02. (a) The Borrower shall maintain or cause to be maintained records adequate to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition, in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof, and shall cause Banco de Guatemala to maintain records adequate to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of Banco de Guatemala in respect of the Project.

(b) The Borrower shall cause Banco de Guatemala to: (i) have the Livestock Project Account audited at the end of each fiscal year, in accordance with sound auditing principles consistently applied, by the *Superintendencia de Bancos* of the Borrower; (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, certified copies of its financial statements for such year relating to such Account and the report of such audit by the *Superintendencia de Bancos*, of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnish to the Bank such other information concerning such Account and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Consultation, Information and Inspection

Section 5.01. The Borrower and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Borrower and the Bank shall from time to time, at the request of either party:

(a) exchange views through their representatives with regard to the performance of their respective obligations under the Loan Agreement, the

performance by Banco de Guatemala of its obligations under the Operating Contract, and, in respect of the Project, of the departments or agencies of the Borrower responsible for the carrying out of the Project or any part thereof, and other matters relating to the purposes of the Loan; and

(b) furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower, including its balance of payments, and the external debt of the Borrower, of any of its political subdivisions and of any agency of the Borrower or of any such political subdivision.

Section 5.02. (a) The Borrower shall furnish or cause to be furnished to the Bank all such information as the Bank shall reasonably request concerning the operations and financial condition, in respect of the Project, of Banco de Guatemala and of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the maintenance of the service thereof, or the performance by the Borrower of its other obligations under the Loan Agreement or the performance by Banco de Guatemala of its obligations under the Operating Contract.

Section 5.03. The Borrower shall cause Banco de Guatemala to enable the Bank's representatives to inspect any of Banco de Guatemala's records and documents relevant to the Project.

ARTICLE VI

Taxes and Restrictions

Section 6.01. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes imposed under the laws of the Borrower or laws in effect in its territories; provided, however, that the foregoing shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Borrower.

Section 6.02. The Loan Agreement and the Bonds shall be free from any taxes on or in connection with the execution, issue, delivery or registration thereof imposed under the laws of the Borrower or laws in effect in its territories and

the Borrower shall pay all such taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries.

Section 6.03. The payment of the principal of, and interest and other charges on, the Loan and the Bonds shall be free from all restrictions, regulations, controls and moratoria of any nature imposed under the laws of the Borrower or laws in effect in its territories.

ARTICLE VII

Remedies of the Bank

Section 7.01. If any event specified in Section 7.01 of the General Conditions or in Section 7.02 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Bank, at its option, may by notice to the Borrower declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately together with the interest and other charges thereon and upon any such declaration such principal, interest and charges shall become due and payable immediately, anything to the contrary in the Loan Agreement or in the Bonds notwithstanding.

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

(a) A default shall occur in the performance of any obligation on the part of Banco de Guatemala under the Operating Contract and such default shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and Banco de Guatemala.

(b) The *Normas* shall have been abrogated or amended without the agreement of the Bank.

ARTICLE VIII

Effective Date; Termination

Section 8.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 11.01 (c) of the General Conditions:

- (a) *Normas*, satisfactory to the Bank, have been issued.
- (b) The execution and delivery of the Operating Contract on behalf of the Borrower and Banco de Guatemala respectively have been duly authorized or ratified by all necessary corporate and governmental action.
- (c) Banco de Guatemala shall have opened in its books the Livestock Project Account and shall have credited to it an amount equivalent to five hundred thousand dollars (\$500,000) made available to it by the Borrower in accordance with Section 3.02 (ii) of this Agreement.
- (d) The Technical Service Unit shall have been established.
- (e) The Project Commission referred to in Section 3.07 (f) of this Agreement shall have been established.
- (f) The Project Credit Committee shall have been established.
- (g) The Borrower shall have employed the Project Director and shall have given him power and authority in accordance with Section 3.07 (b) of this Agreement.

Section 8.02. The following is specified as an additional matter, within the meaning of Section 11.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

- (a) That the Operating Contract has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and Banco de Guatemala respectively, and constitutes a valid and binding obligation of the Borrower and Banco de Guatemala in accordance with its terms.
- (b) That the *Normas* have been duly issued by the Monetary Board and constitute binding and valid obligations of the PCIs in accordance with their terms.

Section 8.03. The date *May 14, 1971*, is hereby specified for the purposes of Section 11.04 of the General Conditions.

ARTICLE IX

Representative of the Borrower; Addresses

Section 9.01. The *Ministro de Hacienda y Crédito Público* of the Borrower is designated as representative of the Borrower for the purposes of Section 10.03 of the General Conditions.

Section 9.02. The following addresses are specified for the purposes of Section 10.01 of the General Conditions:

For the Borrower:

Ministerio de Hacienda y Crédito Público
Palacio Nacional
Guatemala
Guatemala, C.A.

Cable address:

Minihacienda
Guatemala

For the Bank:

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

Cable address:

Intbafrad
Washington, D.C.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed

in their respective names and to be delivered in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF GUATEMALA

By */s/ Julio Aensio Wunderlich*
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By */s/ J. Burke Knapp*
Vice - President

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<i>Category</i>	<i>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</i>	<i>% of Expenditures to be Financed</i>
I. <i>Sub-loans</i>	3,700,000	75% of amounts disbursed under Subsidiary Loans
II. <i>Technical Services</i>	180,000	100% of foreign expenditures
Experts, training grants, vehicles, equipment and materials		
III. <i>Unallocated</i>	120,000	
TOTAL	4,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures for goods produced in, or services supplied from, the territories, and in the currency, of any member of the Bank other than the Borrower or of Switzerland;

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

(c) the term "total expenditures" means the aggregate of foreign and local expenditures.

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

(a) expenditures prior to the date of this Agreement; and

(b) payments for taxes imposed under the laws of the Borrower or laws in effect in its territories on goods or services, or on the importation, manufacture, procurement or supply thereof. To the extent that the amount represented by the percentage set forth in the third column of the table in paragraph 1 above would exceed the amount payable net of all such taxes, such percentage shall be reduced to ensure that no proceeds of the Loan will be withdrawn on account of payments for such taxes.

4. Notwithstanding the allocation of an amount of the Loan set forth in the second column of the table in paragraph 1 above:

(a) if the estimate of the expenditures under any Category shall decrease, the amount of the Loan then allocated to such Category and no longer required therefor will be reallocated by the Bank by increasing correspondingly the unallocated amount of the Loan;

(b) if the estimate of the expenditures under any Category shall increase, the percentage set forth in the third column of the table in paragraph 1 above in respect of such expenditures shall be applied to the amount of such increase, and a corresponding amount will be allocated by the Bank, at the request of the Borrower, to such Category from the unallocated amount of the Loan, subject, however, to the requirements for contingencies, as determined by the Bank, in respect of any other expenditures.

SCHEDULE 2

Amortization Schedule

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
June 15, 1976	120,000
December 15, 1976	125,000
June 15, 1977	130,000
December 15, 1977	135,000
June 15, 1978	140,000
December 15, 1978	145,000
June 15, 1979	150,000
December 15, 1979	155,000
June 15, 1980	160,000
December 15, 1980	170,000
June 15, 1981	175,000
December 15, 1981	180,000
June 15, 1982	185,000
December 15, 1982	195,000
June 15, 1983	200,000
December 15, 1983	210,000
June 15, 1984	215,000
December 15, 1984	225,000
June 15, 1985	230,000
December 15, 1985	240,000
June 15, 1986	250,000
December 15, 1986	265,000

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

Premiums on Prepayment and Redemption

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions or on the redemption of any Bond prior to its maturity pursuant to Section 8.15 of the General Conditions:

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	1-1/4%
More than three years but not more than six years before maturity	2-1/2%
More than six years but not more than eleven years before maturity	4%
More than eleven years but not more than fourteen years before maturity	6%
More than fourteen years before maturity	7-1/4%

SCHEDULE 3**Description of the Project**

The Project is the development of livestock resources of the Pacific coast of Guatemala through a combination of credit facilities and technical assistance. The Project will improve pasture production and herd management methods in order to raise calving percentages, reduce mortality and increase substantially the number of slaughter stock available for sale. The Project consists of:

- A. A credit program, whereby long- and short-term financing will be provided through PCIs to beneficiaries, together with ancillary technical services, for the development of commercial cattle ranches; on-ranch development will cover investment categories such as: pasture establishment and consolidation, fencing, watering points, farm structures, machinery, breeding cattle and working capital.
- B. (i) The establishment and operation of the Technical Service Unit in the Ministry of Agriculture, directly responsible to the Vice-Minister of Agriculture, for the purpose of providing technical services related to the Project and of approving Livestock Development Plans and supervising sub-loans;
- (ii) the granting of training fellowships abroad for Guatemalan Project technicians;
- (iii) the carrying out of field trials in pasture improvement and management and livestock studies for preparing further stages of the livestock development program of the Borrower; and
- (iv) a survey of beef marketing facilities and a study of procedures and policies for the purpose of identifying required marketing policy changes and areas of marketing infrastructure development.

SCHEDULE 4**Operating Policies and Procedures**

1. The Technical Service Unit will assist those applicants whom the PCIs have, after preliminary determination, considered to be creditworthy, to bring their applications to the standards it may set from time to time, and will appraise the application on technical, economic and financial grounds.

2. No sub-loan application shall be submitted to the Project Credit Committee without the approval of the applicable Livestock Development Plan by the Project Director or other persons authorized by him.

3. All applications for sub-loans shall be submitted to the Project Credit Committee for approval. Said Committee shall in no way, directly or indirectly, amend the Livestock Development Plan.

4. The Technical Service Unit, before submitting to the Project Credit Committee any application for a sub-loan which by itself or together with any other sub-loan for the same beneficiary would exceed the equivalent of \$100,000, will submit it to the Bank for its prior approval.

5. The PCI, taking into account the creditworthiness of the applicant, will decide on the granting of the sub-loan on the terms stated in the Livestock Development Plan, without amending it in any respect. The evaluation of creditworthiness will be solely the responsibility of the PCI which will accept or reject the sub-loan application on that ground only.

6. Sub-loans will be in the amount recommended in the Livestock Development Plan, will not ordinarily exceed 80% of its total cost, and will be in local currency and for 12 years, including 4 years of grace, and shall carry a rate of interest of 9% per year. The Borrower shall use its best efforts to ensure that all other charges, including registration, valuation and legal fees and stamp taxes, shall not exceed the equivalent of a charge of 1% per year on the outstanding amount of the sub-loans. In the event said charges exceed said limit, the Borrower shall cause Banco de Guatemala to reduce the rate of interest on Subsidiary Loans and shall cause the PCIs to reduce the rate of interest on sub-loans by the same percentage points or fractions thereof, to such rate as shall be necessary to obtain that the rate of interest on sub-loans plus said charges does not exceed the equivalent of 10% per year. Unless the Bank shall otherwise agree, sub-loans which by themselves or together with any other sub-loan for the same beneficiary would exceed the equivalent of \$50,000 will also carry a 2% per year charge on account

of the services rendered by the Technical Service Unit. The PCI will also grant the applicant such short-term loans, at its current normal rate, as shall be shown necessary in the applicable Livestock Development Plan. The PCI will enter into sub-loan agreements with each rancher on terms satisfactory to the Borrower, the Bank and Banco de Guatemala.

7. Banco de Guatemala, out of the Livestock Project Account, will reimburse 100% of each sub-loan, except such amount thereof as shall correspond to the granting of short-term loans, with a Subsidiary Loan at 7% per year, and otherwise under the same terms, including grace periods, as those of the sub-loans.

8. The PCI shall promptly pay Banco de Guatemala such amounts as it shall receive on account of the 2% commission referred to in paragraph 5 hereof on sub-loans.

SCHEDULE 5**Technical Service Unit**

The Borrower shall establish a Technical Service Unit (TSU) within its Ministry of Agriculture to provide technical assistance to the livestock industry.

The TSU will have such powers, authority, and duties as shall be acceptable to the Bank. With regard to the carrying out of the Project the TSU will: (a) provide the following technical services: (i) helping ranchers to prepare on-ranch livestock development plans; (ii) recommending such plans to PCIs for financing; (iii) supervising the implementation of on-ranch livestock investment plans; and (iv) advising beneficiaries on matters of herd, pasture, and ranch management in general, and (b) carry out, or cause to carry out, field trials in pasture implantation and management and livestock studies for preparing further stages of the livestock development program of the Borrower.

The TSU will establish and maintain records for sample ranches as needed for Project evaluation.

The TSU will be under the direct line of authority of the Vice-Minister of Agriculture. Prior to any reorganization of the Ministry of Agriculture, the Borrower shall consult the Bank on the matter of reallocation of the TSU.

The TSU will have its headquarters in the city of Escuintla and an agency in each of the cities of Retalhuleu and Chiquimulilla.

SCHEDULE 6**Duties and Responsibilities of the Project Director**

The Project Director, who shall be directly responsible to the Vice-Minister of Agriculture, will have the technical responsibility for implementation and execution of the Project and shall have the following specific duties and powers:

- (a) heading the Project's Technical Service Unit;
- (b) cooperating with the management of the Borrower and of the PCIs toward accomplishing Project objectives;
- (c) selecting such technical staff as he considers necessary to carry out Project activities, and recommending its promotion and dismissal;
- (d) training of Project staff as may be necessary for fulfillment of Project objectives;
- (e) approving or disapproving all Livestock Development Plans;
- (f) providing such supervision and technical assistance as necessary to ensure successful completion of each Livestock Development Plan;
- (g) reporting to PCIs and Banco de Guatemala any misuse of the proceeds of a sub-loan or failure on the part of the beneficiary to carry out the Livestock Development Plan and recommending any remedial action therefor;
- (h) preparing an annual budget for the Technical Service Unit (staff and office) to be submitted to the Vice-Minister of Agriculture;
- (i) preparing quarterly and annual Project progress reports for transmittal to the Bank;
- (j) advising the Project Commission on major policy decisions in respect of the Project, and acting as its Executive Secretary; and
- (k) delegating his authority to other staff of the Technical Service Unit.

SCHEDULE 7

Normas

The *Normas* shall provide, *inter alia*, that the PCIs shall:

1. Process all applications for sub-loans in accordance with their normal administrative and financial practices, and the operating policies and procedures set forth in Schedule 4 to this Agreement. In evaluating the collateral offered, the PCIs shall take into account the increased value resulting from the assets to be acquired with the proceeds of the sub-loan.

2. Grant sub-loans on such terms and conditions as are specified in Schedule 4 to this Agreement and only on the basis of Livestock Development Plans approved on the authority of the Project Director.

3. Grant supplementary short-term loans in such amounts and timing as shall be shown necessary in the applicable Livestock Development Plan, under their current normal lending terms.

4. Enter into an agreement with each beneficiary for each sub-loan they shall grant, on terms and conditions satisfactory to the Borrower, including the following:

- (i) that the proceeds of the sub-loan be used exclusively in the carrying out of the Livestock Development Plan;
- (ii) that all procurement of goods and services financed out of the proceeds of the sub-loan be made in accordance with the provisions contained in Section 3.06 of this Agreement;
- (iii) that the beneficiary shall allow the Borrower, the Bank, Banco de Guatemala, the respective PCI or their authorized representatives to inspect the ranching enterprise, the operations thereof, and examine any relevant records and documents related to the carrying out of the Livestock Development Plan; and
- (iv) that the instructions of the Project Director or his designee, with regard to the execution of the Livestock Development Plan, be reasonably carried out by the beneficiary.

The PCIs shall promptly furnish to Banco de Guatemala conformed copies of any such agreement, and any amendment thereto.

5. Open on its books a separate account for each sub-loan.

Such accounts shall be audited annually by the *Superintendencia de Bancos*, and the PCIs shall transmit to Banco de Guatemala, promptly after their preparation and not later than four months after the close of the financial year to which they relate, certified copies of the financial statements relating to such account and a signed copy of the *Superintendencia de Bancos'* report, in such detail as Banco de Guatemala shall reasonably request.

The PCIs shall maintain records adequate to reasonably identify the goods and services financed with the proceeds of each sub-loan.

6. Furnish to Banco de Guatemala, promptly upon request, the statements of Project lending, and the specifications in respect of goods and services financed out of the proceeds of each sub-loan.

7. In the event of any default of any of its sub-loan beneficiaries:

- (i) promptly inform the Project Director and the sub-loan beneficiary of such default;
- (ii) take all measures required to suspend the sub-loan;
- (iii) after consultation with the Project Director, take all necessary remedial action including requiring the immediate repayment of all amounts lent to the defaulting beneficiary.

8. Carry out its activities according to sound financial practices, under the supervision of experienced and competent management, and allow the representatives of the Borrower, the Bank and Banco de Guatemala to examine its transactions and documents relevant to the Project.

Banco de Guatemala may, by notice to the PCI, suspend disbursements under Subsidiary Loans if any of the following events occurs and persists:

- (a) The PCI shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by it or by others whereby any of the property of the PCI shall or may be distributed among its creditors.
- (b) The Bank has recourse to any of the remedies set forth in Sections 6.02 and 7.01 of the General Conditions Applicable to Loan and Guarantee Agreements dated January 31, 1969.
- (c) The PCI fails to comply with the *Normas*.