
LOAN NUMBER 7319-GU

Loan Agreement

(First Broad-Based Growth Development Policy Loan)

between

REPUBLIC OF GUATEMALA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *January 5th.* , 2006

LOAN AGREEMENT

AGREEMENT, dated January 5th, 2006, between REPUBLIC OF GUATEMALA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated May 30, 2005 describing a program of actions, objectives, and policies designed to promote growth and achieve sustainable reductions in poverty (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof;

WHEREAS (B) the Borrower has carried out the measures and taken the actions described in Schedule 3 to this Agreement to the satisfaction of the Bank and has maintained a macroeconomic policy framework satisfactory to the Bank; and

WHEREAS (C) on the basis, *inter alia*, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in one single tranche as hereinafter provided;

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 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) Section 2.01, paragraph 41, is modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

- (b) Section 3.08 is modified to read:

"Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Loan Currency. The Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn

from the Loan Account such currencies as shall be required to meet payments to be financed out of the proceeds of the Loan.”

- (c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.”;

- (d) the last sentence of Section 5.03 is deleted;

- (e) Section 9.07 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”; and

- (f) Section 9.05 is deleted in its entirety and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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) “BANGUAT” means the Borrower’s central bank;
- (b) “Budget management system” referred to in Section 2.02 (b) of this Agreement, means the Borrower’s financial management system;
- (c) “DR-CAFTA” means Dominican Republic-Central America Free Trade Agreement, a treaty entered into and ratified on March 16, 2005 by the Borrower for the purposes of establishing a free trade zone among the countries of Guatemala, Honduras, Nicaragua, San Salvador, the Dominican Republic and the United States of America;
- (d) “Fiscal Year” means the Borrower’s fiscal year beginning January 1 and ending December 31 of the next calendar year;
- (e) “GDP” means gross domestic product;

(f) “*Guatecompras*” means the transparent web-based procurement system of the Borrower;

(g) “Inter-Governmental Financial Action Task Force” on money laundering and combating of terrorism means the international task force established in 1989 for the development and promotion of policies, both at national and international levels, to combat money laundering and financing of terrorism;

(h) “International Maritime Organization” means a United Nations-sponsored international organization established by a multilateral convention which entered into force in 1958 with the objectives of improving safety at sea through the development of international regulations to be followed by all shipping nations;

(i) “Invest in Guatemala” means the Borrower’s investment promotion office established in September 2004;

(j) “*Ministerio de Economía*” means the Borrower’s Ministry of Economy;

(k) “*Ministerio de Finanzas Públicas*” means the Borrower’s Ministry of Public Finance; and

(l) “Peace Accords” means the peace accords of 1996 signed by all parties to Guatemala’s armed conflict.

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 one hundred million Dollars (\$100,000,000) 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. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the amount of ninety-nine million Dollars (\$99,000,000) from the Loan Account in support of the Program.

(b) Except as the Bank may otherwise agree: (i) all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and (ii) the Borrower shall ensure that upon each deposit of an amount of the Loan into said account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Bank.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank determines at any time that an amount of the Loan was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of said payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

Section 2.03. The Closing Date shall be June 30, 2006 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 fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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 said 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 and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 2 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.

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal one hundred million Dollars shall be converted from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Schedule 3 to this Agreement.

Section 3.02. Without limitation upon the provisions of Section 9.01 (a) of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of Article II of this Agreement as the Bank may, from time to time, reasonably request.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) the Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program; and

(c) an action has been taken or a policy has been adopted to reverse any action or policy under the Program, including any action listed under Schedule 3 to this Agreement, in a manner that would, in the opinion of the Association, adversely affect the achievement of the objectives of the Program.

ARTICLE V

Effective Date; Termination

Section 5.01. The date April 5th., 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower at the time responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. 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, Guatemala, C.A.

Telephone:

Fax:

(502) 22485002

(502) 22485005

(502) 22485003

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 the January 5th, 2006, as of the day and year first above written.

REPUBLIC OF GUATEMALA

By  Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By  Authorized Representative

CITY OF GUATEMALA, GUATEMALA

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan, credit, or grant;
2. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

4. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Bank);

5. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

6. expenditures under a contract in respect of which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

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.

Payment Date	Installment Share (Expressed as a %)
On each May 15 and November 15 Beginning November 15, 2007 through November 15, 2024	2.78 %
On May 15, 2025	2.70 %

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.

SCHEDULE 3**Actions Referred to in Recital (B) of the Preamble to this Agreement****A. Economic growth**

Pursuant to the objective of fostering growth and strengthening the investment climate in relation thereto stated in the LDP, the Borrower has:

1. (i) signed the DR-CAFTA Treaty; (ii) caused it to be approved by Congress; and (iii) effected the publication of the notification of such approval in the Official Gazette;
2. established "Invest in Guatemala", taken the necessary steps to make it fully operational (with adequate structure, mandate and staff) and under the administrative authority of the Ministry of Economy;
3. obtained the security certification of all of the Borrower's seaports in line with the specifications of the International Maritime Organization; and
4. achieved removal of the Borrower from the list of non-cooperative countries of the Inter-Governmental Financial Action Task Force on money laundering and the combating of terrorism.

B. Public expenditures management

Pursuant to the objective of enhancing capacity for public spending in priority sectors stated in the LDP, the Borrower has:

1. carried out all required procedural steps under its legal and constitutional framework to ensure that appropriate amendments to the Borrower's legislation are passed, including: (i) Decree No. 18-04 on income taxes; (ii) Decree No. 19-04 regarding temporary and extraordinary taxes in support of the Peace Accords; (iii) Decree No 21-04 regarding taxes for the distribution of alcoholic beverages, distilled drinks, beer and other beverages; and (iv) Decree No. 38-2005 regarding the distribution of crude petroleum and combustible petroleum derivatives, all with form and substance satisfactory to the Bank;
2. against projected gaps in tax revenues for Fiscal Year 2004 arising from constitutional court rulings striking down selected tax laws, the Borrower has maintained, through substantial enforcement efforts in tax collection, a level of tax revenues of 10.3% of GDP by end of Fiscal Year 2004; and

3. increased the budgetary allocations for social expenditures as defined in the Peace Accords, from 5% of GDP, as per the 2004 executed budget, to at least 5.5% of GDP for Fiscal Year 2005 .

C. Public sector management

Pursuant to the objective of improving transparency in, and efficiency of, the utilization of public resources stated in the LDP, the Borrower has:

1. (i) implemented its integrated financial management system (SIAF) in forty-three (43) of the Borrower's central government entities and legislative branch, in forty-six (46) of the Borrower's municipalities; and in twenty (20) of the Borrower's decentralized agencies; and (ii) launched, through information technology, its fiscal transparency portal to enhance public access to budget data; and

2. established *Guatecompras* in seventy six (76) of the Borrower's public sector agencies and one hundred eighty five (185) of the Borrower's municipalities.