
LOAN NUMBER 7407-GU

Loan Agreement

(Second Broad-Based Growth Development Policy Loan)

between

REPUBLIC OF GUATEMALA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated

May 18, 2007

LOAN AGREEMENT

Agreement dated May 18, 2007 entered into between REPUBLIC OF GUATEMALA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I A. of Schedule I to this Agreement; and (b) the Borrower's maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I—GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II—LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of \$100,000,000 (one hundred million Dollars), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement ("Loan").
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent ($3/4$ of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any

waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.

- 2.06. The Payment Dates are June 15 and December 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.08. (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 the 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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.09. Without limitation upon the provisions of paragraph (a) of Section 2.08 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 \$100,000,000 (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.
- 2.10. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III—PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end:

- (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; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) 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 Section I of Schedule 1 to this Agreement.

ARTICLE IV—REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following:

- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- (b) The Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program.
- (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 Section I.A. of Schedule 1 to this Agreement, in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.

4.02. The Additional Events of Acceleration consist of the following:

- (a) Any event specified in paragraph (c) of Section 4.01 of this Agreement occurs and is continuing for a period of 30 days after notice of the event has been given by the Bank to the Borrower.

- (b) Any event specified in paragraphs (a) and (b) of Section 4.01 of this Agreement occurs.

ARTICLE V—EFFECTIVENESS

- 5.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date (90) days after the date of this Agreement, but in no case later than the eighteen(18) months after the Bank's approval of the Loan which expires on February 29, 2008.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Public Finance.

- 6.02. The Borrower's Address is:

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

Telephone:

Facsimile:

(502) 22485002
(502) 22485003

(502) 22485005

- 6.03. The Bank's Address is:

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)

1-202-477-6391

AGREED at the District of Columbia, USA, as of the
day and year first above written.

REPUBLIC OF GUATEMALA

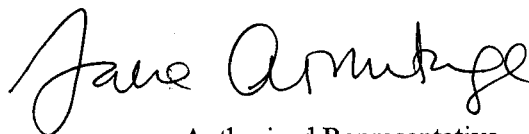
By



Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

- A. The actions taken by the Borrower under the Program include the following:
1. Promoting Growth and Strengthening the Investment Climate
 - (a) The Borrower, through its Congress, has enacted Legislative Decree No. 11-2006 (*Reformas Legales para la Implementación del Tratado de Libre Comercio República Dominicana-Centroamérica-Estados Unidos de América*) dated May 18, 2006 and published in the Borrower's *Diario de Centro America* on May 29, 2006, which includes provisions to ensure the entry into force and effect of DR-CAFTA.
 - (b) The Borrower, through a letter dated July 26, 2006 (with attached reports) issued by MFP has certified that, pursuant to the Joint Declaration of Heads of States and Government of Central America dated February 01, 2005 (*Declaración Conjunta de los Jefes de Estado y de Gobierno de los Países del Sistema de la Integración CentroAmericana*), the customs procedures among the Borrower and selected neighboring countries (El Salvador and Honduras) have been simplified and harmonized in order to promote stronger regional integration.
 - (c) The Borrower, through a letter dated July 26, 2006 (with attached reports) issued by MFP has certified that, based on objectives of efficiency, a reduction in customs processing times and costs has been achieved through:
 - (i) the implementation of an electronic customs manifest in all ports and airports of the territory of the Borrower;
 - (ii) the establishment of a permanently open (24/7) air express office at Borrower's Aurora Airport and one-stop offices for documentation analysis at border crossings with selected neighboring countries in Central America;
 - (iii) the implementation of a single customs declaration; and
 - (iv) the implementation of a risk assessment and selectivity system based on SAT databases and information to

ensure a reduction of the arbitrariness and number of customs inspections (red lights).

- (d) The Borrower: (i) through its Congress, has enacted Legislative Decree No. 41-2005 (*Ley del Registro de Información Catastral*) dated June 15, 2005 and published in the Borrower's *Diario de CentroAmérica* on July 20, 2005, which includes provisions for land registration; and (ii) through certification dated July 20, 2006 of the Secretary of the Board of the Borrower's RIC (*Consejo Ejecutivo*), has confirmed the establishment of an independent board of directors to RIC; and additionally (iii) through a letter dated July 24, 2006 of the Registrar (*Registradora General de la Propiedad*), has confirmed the establishment of the electronic land registry in operational form.
- (e) The Borrower, through its *Universidad de San Carlos*, has presented a draft law on public-private participation for the infrastructure sector (*Iniciativa de la Ley de Concesiones*), and registered such draft with the Borrower's Congress for its consideration under No. 3376 on October 26, 2005.
- (f) The Borrower, through its Congress, has enacted: (i) Legislative Decree No. 89-2005 (*Ley para la Ejecución del Proyecto Vial Denominado Anillo Metropolitano*) dated November 16, 2005 and published in the Borrower's *Diario de Centro America* on December 1, 2005, which includes provisions for the construction of segments for a partial metropolitan beltway intended to reduce traffic congestion in the Borrower's capital city; and (ii) Legislative Decree No. 88-2005 (*Ley para la Ejecución del Proyecto Vial Denominado Franja Transversal del Norte*) dated November 30, 2005 and published in the Borrower's *Diario de Centro America* on December 1, 2005, which includes provisions for the construction of roads allowing the connection of ports to poor areas of the Borrower's territory.
- (g) The Borrower, through its Civil Aeronautics Directorate (*Dirección de Aeronáutica Civil*) has issued a letter dated July 21, 2006 which certifies the implementation of the Borrower's plan of actions designed to upgrade the country's main airport facilities in line with international safety norms.
- (h) The Borrower, through its Superintendence of Banks, has issued letter No. 2417 dated July 21, 2006 certifying that: (i) the organizational restructuring of the Superintendence of Banks to enhance the implementation of risk-based supervision is being carried out; and (ii) progress, satisfactory to the Bank, in the mapping of financial groups to reconcile capital ownership among them has been achieved, all with the

objective of strengthening the Borrower's financial sector by reinforcing the supervision of financial groups operating in its territory.

- (i) The Borrower, through the Monetary Board of BANGUAT, has issued Resolution No. JM-166-2005 dated December 9, 2005 which includes provisions for a strengthened national payment system (*Modernización del Sistema de Pagos Nacionales*), including *inter alia*: (i) an electronic clearing system for banks; and (ii) the use of real-time settlement and, for the latter, in support of which the general manager of BANGUAT has issued a letter dated July 25, 2006 certifying that the new real-time settlement system is established in fully operational form.

2. Enhancing Capacity for Public Spending in Priority Sectors

- (a) The Borrower, through its Congress, has enacted Legislative Decree No. 20-2006 (*Disposiciones Legales Para el Fortalecimiento de la Administración Tributaria*) dated June 20, 2006 and published in the Borrower's *Diario de Centro America* on June 28, 2006, which includes provisions for the strengthening of the Borrower's tax administration system.
- (b) The Borrower, through letter dated July 26, 2006 issued by its MFP has certified that progress, satisfactory to the Bank, has been achieved in the implementation of the Borrower's 106 points strategic plan for the strengthening of tax administration, through: (i) the establishment of a mandatory requirement for electronic filing of VAT tax reports by the 300 largest taxpayers of the Borrower's territory; (ii) the implementation of a control program for the 300 largest tax payers based on systematic cross-checks; and (iii) the establishment of an up-to-date, unified tax register for the 3,000 largest tax payers in the territory of the Borrower.
- (c) The Borrower, through its MFP, has issued a Ministerial Accord (*Acuerdo Ministerial*) dated No. 21-2005 and published in the Borrower's *Diario de Centro America* on September 13, 2005, which includes provisions to strengthen the capacity of the Borrower's municipalities to collect property taxes through the approval by MFP of a new municipal appraisal accounting manual dated August 2005.
- (d) The Borrower has submitted: (i) through its MFP, a budget execution report dated January 09, 2006 which attests to an increased execution of social expenditure in 2005 with respect to 2004; and (ii) through its Budget Law dated December 14, 2005, approved by Congress through Legislative Decree No 92-2005, the confirmation of an increase in its budget allocation of social expenditure for 2006 with respect to 2005.

3. Transparency and Public Sector Management

- (a) The Borrower, through its MFP, has issued a progress report at May 31, 2006 confirming the increased operational coverage of: (i) SIAF to 7 additional central government and decentralized agencies and about 64 additional municipalities; and (ii) *Guatecompras* to about 77 additional municipalities.
- (b) The Borrower: (i) through its Congress, has issued Legislative Decree No. 92-2005 dated December 13, 2005 and published in the Borrower's *Diario de Centro America* on December 19, 2005, which includes provisions for the mandatory use of *Guatecompras* for all public purchases over Q30,000; and (ii) through a report dated May 15, 2006 prepared by the Ministry of Public Finance, has confirmed the implementation of the interface with SIAF.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. **Allocation of Loan Amounts.** The Loan shall (except for amounts required to pay the Front-end Fee) be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocation	Amount of the Loan Tranche Allocated (expressed in Dollars)
Single Tranche	100,000,000
Front-end Fee	0
TOTAL AMOUNT	100,000,000

- C. **Deposits of Loan Amount.** Except as the Bank may otherwise agree:
 - 1. 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
 - 2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the

Borrower's budget management system, in a manner acceptable to the Bank.

- D. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- E. Closing Date.** The Closing Date is December 31, 2007.

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 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each June 15 and December 15 Beginning December 15, 2008 through December 15, 2025	2.78 %
On June 15, 2026	2.70 %

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn 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, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (a) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (b) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Section I. Definitions

1. "BANGUAT" means the Borrower's central bank.
2. "*Diario de Centro America*" means the Borrower's official gazette wherein, pursuant to the Borrower's legal and constitutional framework, all pieces of legislation must be published to ensure their entry into force and effect.
3. "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.
4. "Excluded Expenditure" means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups 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:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, 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

Group	Sub-group	Description of Item
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
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)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous 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;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds during the procurement or execution of such contract, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to remedy the situation.
5. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
 6. "*Guatecompras*" means the transparent web-based government procurement system of the Borrower.

7. "MFP" means *Ministro de Finanzas Públicas*, the Borrower's Minister of Public Finance.
8. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated July 24, 2006 from the Borrower to the Bank declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
9. "Quetzal" and "Q" mean the Borrower's lawful currency.
10. "RIC" means the Cadastral Information Registry of the Borrower.
11. "SAT" means the Superintendence of Tax Administration of the Borrower.
12. "SIAF" means the Integrated Financial Management System of the Borrower.
13. "Single Tranche" means the amount of the Loan allocated to the category entitled "Single Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
14. "Superintendence of Banks" means the Borrower's supreme body for the regulation and supervision of banks operating in its territory.
15. "Supplemental Letter" means the letter of even date herewith setting forth certain additional understandings between the Bank and Borrower in respect of the Loan.

Section II. Modifications to the General Conditions

The modifications to the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.

4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term "Project" is modified to read "Program" and its definition is modified to read as follows:

"'Program' means the program referred to in the Loan Agreement in support of which the Loan is made." All references to "Project" throughout these General Conditions are deemed to be references to "Program".