

**No. 16308**

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**UNITED STATES OF AMERICA  
and  
COLOMBIA**

**Loan Agreement relating to a rural co-operative system (with  
annex). Signed at Bogotá on 28 April 1976**

*Authentic text: English.*

*Registered by the United States of America on 27 January 1978.*

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**ÉTATS-UNIS D'AMÉRIQUE  
et  
COLOMBIE**

**Accord de prêt relatif aux coopératives agricoles (avec  
annexe). Signé à Bogotá le 28 avril 1976**

*Texte authentique : anglais.*

*Enregistré par les États-Unis d'Amérique le 27 janvier 1978.*

## LOAN AGREEMENT<sup>1</sup> BETWEEN THE UNITED STATES OF AMERICA AND COLOMBIA RELATING TO A RURAL COOPERATIVE SYSTEM

LOAN AGREEMENT dated the 28th day of April, 1976 between the REPUBLIC OF COLOMBIA (“Borrower”), the BANK OF THE REPUBLIC (“Bank”) and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT (“A.I.D.”)

### *Article I.* [THE LOAN]

Section 1.01. *The Loan.* A.I.D. agrees to lend to the Borrower in furtherance of the Alliance for Progress and pursuant to section 1.03 of the Foreign Assistance Act of 1961, as amended, an amount not to exceed five million dollars (\$5,000,000) (“Loan”) to assist in financing a program designed to strengthen the rural cooperative movement in Colombia by furnishing credit through the Bank to the National Cooperative Financing Institute and Cooperative Central for Agrarian Reform. The Loan shall be used to finance United States dollar costs of goods and services required for the Program (“Dollar Costs”) and local currency costs of goods and services required for the Program (“Local Currency Costs”). The aggregate amount of disbursements under the Loan is hereinafter referred to as “Principal”.

Section 1.02. *The Program.* The Program consists of funds for relending by the implementing agencies (see section 1.03) for general agricultural credit and for marketing activities. Resources for cooperative relending will be contributed by A.I.D., Bank of the Republic, Implementing Agencies and the cooperative movement’s own resources. These funds will be lent to eligible federations and cooperatives active in the rural areas for agricultural production purposes and will be lent to individual cooperative members. There will also be loans for marketing activities. Two hundred and fifty thousand (\$250,000) dollars of the Loan will be used for technical and administrative services for Financiacoop and member federations. Of this amount \$100,000 will be used to finance US technical and administrative services contracts.

The Program is more fully described in Annex 1, attached hereto, which Annex may be modified by mutual agreement of the Parties in writing.

Section 1.03. *Implementing agency.* The Borrower hereby designates the Instituto de Financiamiento y Desarrollo Cooperativo (Financiacoop) and the Central de Cooperativas de Reforma Agraria (Cecora) as implementing agencies.

### *Article II.* LOAN TERMS

Section 2.01. *Interest.* The Borrower shall pay to A.I.D. interest which shall accrue at the rate of two percent (2%) per annum for ten years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance shall accrue from the date of each respective

<sup>1</sup> Came into force on 28 April 1976 by signature, in accordance with section 9.06.

disbursement (as such date is defined in section 7.04) and shall be computed on the basis of a 365-day year. Interest shall be payable semiannually. The first payment of interest shall be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

Section 2.02. *Repayment.* The Borrower shall repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement hereunder in sixty-one (61) approximately equal semiannual installments of Principal and interest. The first installment of Principal shall be payable nine and one-half (9½) years after the date on which the first interest payment is due in accordance with section 2.01. A.I.D. shall provide the Borrower with an amortization schedule in accordance with this section after the final disbursement under the Loan.

Section 2.03. *Application, currency and place of payment.* All payments of interest and Principal hereunder shall be made in United States dollars and shall be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise agree in writing, all such payments shall be made to the Controller, Agency for International Development, Washington, D.C. 20523, and shall be deemed made when received by A.I.D. at this address.

Section 2.04. *Prepayment.* Upon payment of all interest and refunds then due, the Borrower may prepay, without penalty, on any date on which interest is due, all or any part of the Principal. Any such prepayment shall be applied in the order prescribed in section 2.03 and, to the extent applied to Principal, shall be applied *pro rata* to the remaining installments thereof.

Section 2.05. *Renegotiation of the terms of the loan.* In the light of the undertaking of the United States of America, and the other signatories of the Act of Bogotá<sup>1</sup> and the Charter of Punta del Este<sup>2</sup> to forge an Alliance for Progress, the Borrower agrees to negotiate with A.I.D., concerning an acceleration of the repayment of Principal at any time or from time to time as A.I.D. or the Borrower may request; provided, however, that no such request under this section shall be made prior to six (6) months before the date the first installment of Principal is payable under section 2.02. The Parties hereto shall mutually determine whether such an acceleration shall take place on the basis of the following criteria:

- (i) the capacity of Borrower to service a more rapid liquidation of its obligations in the light of the internal and external financial position of Colombia, taking into account debts owing to any agency of the United States of America, or to any international organization of which the United States of America is a member; and
- (ii) the relative capital requirements of Borrower and of the other signatories of the Act of Bogotá and the Charter of Punta del Este.

### Article III. CONDITIONS PRECEDENT TO DISBURSEMENT

Section 3.01. *Conditions precedent to initial disbursement Loan funds.* Prior to any disbursement or to the issuance of the first Letter of Commitment under the Loan, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

<sup>1</sup> United States of America, *Department of State Bulletin*, 3 October 1960.

<sup>2</sup> *Ibid.*, 11 September 1961.

- (a) an opinion of the Legal Advisor to the Director General, Office of Public Credit, Ministry of Finance, demonstrating that this Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, Borrower, and constitutes a valid binding obligation of Borrower in accordance with its terms;
- (b) evidence of the authority of the person or persons who will act as representative or representatives of Borrower, pursuant to section 9.02, together with a specimen signature of each such person duly certified as to its authenticity;
- (c) evidence that the Bank and Financiacoop and Cecora have entered into an agreement providing, *inter alia*, for repayment, by Financiacoop and Cecora in pesos, of the proceeds of the Loan within 25 years including a 5-year grace period with interest at 7% per annum;
- (d) evidence that a Project Coordinating Committee has been established and a listing of its functions and procedures;
- (e) a statement acceptable to A.I.D., setting forth the general lending policies to be followed by Financiacoop and Cecora in carrying out the Program, including sub-lending criteria, specific definition of eligible sub-borrowers and terms and conditions of the subloans;
- (f) a time-phased implementation plan prepared by Financiacoop and Cecora acceptable to A.I.D. for the Program;
- (g) an outline of a program of cooperative education to be undertaken by Financiacoop and Cecora, together with criteria for cooperative education plans to be developed by sub-borrowing cooperative federations;
- (h) a statement outlining the considerations that will be given to making complementary agricultural inputs available to those cooperatives that will be borrowing credits from Financiacoop under the Loan;
- (i) Borrower shall cause to be submitted to A.I.D. in form and substance satisfactory to A.I.D. the terms of reference for technical and administrative services, to be financed and their proposed source.

Section 3.02. *Conditions precedent to disbursement for Uconal.* Prior to any disbursement, or the issuance of any commitment documents under the Loan to finance a subloan to the Unión Cooperativa Nacional de Crédito (“Uconal”) or any of its affiliates, Borrower shall cause to be submitted to A.I.D. evidence that external resources, other than those provided by the Loan, are not available to Uconal under terms and conditions similar to, and within a time frame comparable to, those provided by the Loan.

Section 3.03. *Terminal dates for meeting conditions precedent to disbursement.* If all of the conditions specified in sections 3.01 and 3.02 shall not have been met within ninety (90) days from the date of this Agreement, A.I.D., at its option, may terminate this Agreement by giving written notice to the Borrower. Upon the giving of such notice, this Agreement and all obligations of the Parties hereunder shall terminate.

Section 3.04. *Notification of meeting of conditions precedent.* A.I.D. shall promptly notify the Borrower in writing when the conditions precedent to disbursement specified in sections 3.01 and 3.02 have been met.

*Article IV. GENERAL COVENANTS AND WARRANTIES*

Section 4.01. *Execution of the Program.* The Borrower shall carry out the Program with due diligence and efficiency, and in conformity with sound financial, administrative and lending practices.

In this connection, the Borrower shall at all times employ suitably qualified and experienced consultants, where appropriate in connection with the Program set forth in Annex I.

Section 4.02. *Funds and other resources to be provided by Borrower.* Except as A.I.D. may otherwise agree in writing the Borrower shall provide or cause to be provided promptly as needed all funds, in addition to the Loan, and all other resources required for the punctual and effective carrying out of the Program. In cases where *force majeure* affects the original scope of the Program, the Borrower may request consultation with A.I.D.

Section 4.03. *Continuing consultation.* The Borrower and A.I.D. shall cooperate fully to assure that the purpose of the Loan will be accomplished. To this end, the Borrower, and A.I.D. shall from time to time, at the request of either Party, exchange views through their representatives with regard to the progress of the Program, the performance by the Borrower of its obligations under this Agreement, the performance of the consultants, contractors, and suppliers engaged on the Program, and other matters relating to the Program.

Section 4.04. *Management.* The Borrower shall provide qualified and experienced management for the Program, and shall train such staff as may be appropriate for the organization, development, maintenance and operation of the Program.

Section 4.05. *Taxation.* This Agreement, the Loan and any evidence of indebtedness issued in connection herewith shall be free from, and the Principal and interest shall be paid without deduction for and free from, any taxation or fees imposed under the laws in effect within the country of the Borrower. To the extent that any contractor, including any consulting firm, any personnel of such contractor financed hereunder and any property or transactions relating to such contracts and any commodity procurement transaction financed hereunder are not exempt from identifiable taxes, tariffs, duties, and other levies imposed under laws in effect in the country of the Borrower, the Borrower shall, as and to the extent prescribed in and pursuant to Implementation Letters, pay or reimburse the same under section 4.02 of this agreement with funds other than those provided by Borrower under the Loan.

Section 4.06. *Disclosure of material facts and circumstances.* The Borrower represents and warrants that all facts and circumstances that it has disclosed or caused to be disclosed to A.I.D. in the course of obtaining the Loan are accurate and complete, and that it has disclosed to A.I.D. accurately and completely, all facts and circumstances that might materially affect the Program and the discharge of its obligations under this Agreement. The Borrower shall promptly inform A.I.D. of any facts and circumstances that may hereafter arise that might materially affect, or that it is reasonable to believe might materially affect the Program or the discharge of the Borrower's obligations under this Agreement.

Section 4.07. *Commissions, fees and other payments.* (a) The Borrower warrants and covenants that in connection with obtaining the Loan, or taking any action under or with respect to this Agreement, it has not paid, and will not pay or

agree to pay, nor to the best of their knowledge has there been paid nor will there be paid or agreed to be paid by any other person or entity, commissions, fees, or other payments of any kind, except as regular compensation to the Borrower's full-time officers and employees or as compensation for bona fide professional, technical, or comparable services. The Borrower shall promptly report to A.I.D. any payment or agreement to pay for such bona fide professional, technical or comparable services to which they are Parties or of which they have knowledge (indicating whether such payment has been made or is to be made on a contingent basis), and if the amount of any such payment is deemed unreasonable by A.I.D. the same shall be adjusted in a manner satisfactory to A.I.D.

Section 4.08. *Maintenance and audit of records.* The Borrower shall maintain, or cause to be maintained by the Implementing Agency, in accordance with sound accounting principles and practices consistently applied, books and records relating both to the Program and to this Agreement. Such books and records shall, without limitation, be adequate to show:

- (a) disbursement of Borrower's contribution in accordance with the provisions of Annex I;
- (b) disbursements of funds made available under the Loan in accordance with the provisions of Annex I;
- (c) the progress, both fiscal and qualitative, of the Program, in sufficient detail (as shall hereafter be specified in Implementation Letters) to enable A.I.D. to review request from the Borrower for disbursement of Loan funds.

Such books and records shall be regularly audited in accordance with sound auditing standards, for such period and at such interval as A.I.D. may require, and shall be maintained for five years after the date of the last disbursement by A.I.D. or until all sums due A.I.D. under this Agreement have been paid, whichever date shall first occur.

Section 4.09. *Reports.* The Borrower shall furnish or cause to be furnished to A.I.D. such information and reports relating to the Loan and to the Program as the parties may determine necessary.

Section 4.10. *Inspections.* The authorized representative of A.I.D. shall have the right at all reasonable times to inspect the Program and services financed by Loan funds or by Borrower's contribution, and the Borrower's books, records, and other documents relating to the Program and the Loan. The Borrower shall cooperate with A.I.D. to facilitate such inspections and shall permit representatives of A.I.D. to visit any part of the country of the Borrower for any purpose relating to the Loan.

#### *Article V. SPECIAL COVENANTS AND WARRANTIES*

Section 5.01. Borrower shall covenant that:

- (a) Its contribution to the Program, as described in Annex I hereof, shall be provided in a timely manner, and in accordance with the provisions set forth therein.
- (b) Unless A.I.D. shall otherwise agree in writing, it will conduct annual reviews of the progress of the Program with A.I.D.
- (c) Unless A.I.D. shall otherwise agree in writing, Borrower shall allocate up to \$5 million dollars in peso equivalent of Program funds to Financiacoop for

agriculture-related lending to eligible sub-borrowers (credit activity) and that at least 80% of the Program funds shall be lent to cooperative federations on behalf of their eligible rural cooperative members.

(d) Unless A.I.D. shall otherwise agree in writing, Borrower shall allocate up to \$2.250 million dollars in peso equivalent of the Program funds for specific marketing investments by Cecora and/or its affiliates. Any such funds for purposes other than innovative marketing interventions directed specifically at the target group that have not been approved for specific subprojects within one year of Loan signing shall be subject to reallocation by Borrower and shall become available for agriculture-related lending to eligible cooperatives/federations.

(e) Any subloan application from Cecora or its affiliates in excess of \$100,000 peso equivalent shall be supported by an independent feasibility study and subject to prior approval by A.I.D.

(f) Unless A.I.D. otherwise agrees in writing, funds received from the repayment of principal of subloans made with Program funds shall be used solely for additional sublending for the same general purposes.

(g) Annually, the Project Committee will review the interest rate policy governing the rate paid by final borrowers of Program funds.

#### Article VI. PROCUREMENT

Section 6.01. *Procurement from selected free world countries.* Except as A.I.D. may otherwise agree in writing, disbursements made pursuant to section 7.01 shall be used exclusively to finance the procurement for the Program of goods and services, except motor vehicles, having both their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time the orders are placed or contracts are entered into for such goods and services (“Selected Free World Goods and Services”).

Section 6.02. *Procurement from Colombia.* Disbursements made pursuant to section 7.02 shall be used exclusively to finance the procurement for the Program of goods and services having both their source and origin in Colombia.

Section 6.03. *Eligibility date.* Except as A.I.D. may otherwise agree in writing, no goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered prior to the date of this Agreement.

Section 6.04. *Implementation of procurement requirements.* The definitions applicable to the eligibility requirements of section 6.01 will be set forth in detail in Implementation Letters.

Section 6.05. *Plans, specifications and contracts.* The Borrower shall furnish or cause to be furnished to A.I.D. upon request all plans, specifications, construction schedules, bid documents, and contracts relating to the Program, and any modifications therein, relating to goods and services to be financed under the Loan.

Section 6.06. *Reasonable price.* No more than reasonable prices shall be paid for any goods or services financed, in whole or in part, under the Loan. Such items shall be procured on a fair and, except for professional services, on a competitive basis in accordance with established procedures.

Section 6.07. *Goods and services not financed under the Loan.* Goods and services procured for the Program with Program funds shall have their source and origin in countries included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time orders are placed for such goods and services.

#### Article VII. DISBURSEMENTS

Section 7.01. *Disbursement for United States dollar costs — Letter of Commitment to United States banks.* Upon satisfaction of conditions precedent, the Borrower may, from time to time, request A.I.D. to issue Letters of Commitment for specified amounts to one or more United States banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, through the use of Letter of Credit or otherwise, for dollar costs of goods procured for the Program in accordance with the terms and conditions of this Agreement. Payment by a bank to a contractor or supplier will be made by the bank upon presentation of such supporting documentation as A.I.D. may prescribe in Letters of Commitment and Implementation Letters.

Banking charges incurred in connection with Letters of Commitment and Letters of Credit shall be for the Account of the Borrower and may be financed under the Loan.

Section 7.02. *Disbursements for peso costs.* Upon satisfaction of conditions precedent, the Borrower may from time to time request disbursement by A.I.D. of Colombian pesos for the Program in accordance with the terms and conditions of this Agreement by submitting to A.I.D. such supporting documents as A.I.D. may prescribe in Implementation Letters. A.I.D. shall make such disbursements from pesos owned by the United States Government and obtained by A.I.D. with United States dollars. The United States dollar equivalent of the pesos made available hereunder will be the amount of United States dollars required by A.I.D. to obtain the pesos.

Section 7.03. *Other forms of disbursement.* Disbursements of the Loan may also be made through such other means as the Borrower and A.I.D. may agree to in writing.

Section 7.04. *Date of disbursement.* Disbursements by A.I.D. shall be deemed to occur: (a) on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment or Credit; or (b) on the date on which A.I.D. disburses the local currency to the Borrower or its designee.

Section 7.05. *Terminal date of disbursement.* (a) Except as A.I.D. may otherwise agree in writing, no Letter of Commitment, or other commitment documents, which may be called for by another form of disbursement under section 7.03 or amendment thereto, shall be issued in response to requests received by A.I.D. more than thirty (30) months after notification of satisfaction of initial conditions precedent and no disbursement shall be made against documentation received by A.I.D. or any bank described in section 7.01 more than thirty-six (36) months after such notification. A.I.D., at its option, may at any time or times after such date reduce the Loan by all or any part thereof for which documentation was not received by such date.



*Article VIII. CANCELLATION AND SUSPENSION*

Section 8.01. *Cancellation by the Borrower.* The Borrower may, with the prior written consent of A.I.D. and by written notice to A.I.D., cancel any part of the Loan (i) which, prior to the giving of such notice, A.I.D. has not disbursed or committed itself to disburse, or (ii) which has not then been utilized through the issuance of irrevocable Letters of Credit or through bank payments made other than under irrevocable Letter of Credit.

Section 8.02. *Events of default; acceleration.* If any one or more of the following events (“Events of Default”) shall occur:

- (a) the Borrower shall have failed to pay when due any interest or installment of Principal required under this Agreement;
- (b) the Borrower shall have failed to comply with any other provision of this Agreement, including, but without limitation, the obligation to carry out the Program with due diligence and efficiency;
- (c) the Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between the Borrower or any of its agencies and A.I.D. or any of its predecessor agencies;

then A.I.D. may, at its option, give the Borrower notice that all or any part of the unrepaid Principal shall be due and payable sixty (60) days thereafter and, unless the Event of Default is cured within such sixty (60) days:

- (i) such unrepaid Principal and any accrued interest hereunder shall be due and payable immediately; and
- (ii) the amount of any further disbursements made under the then outstanding irrevocable Letters of Credit or otherwise shall become due and payable as soon as made.

Section 8.03. *Suspension of disbursement.* In the event that at any time:

- (a) an event of default has occurred;
- (b) an event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower will be able to perform its obligations under this Agreement;
- (c) any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.;
- (d) the Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies;
- (e) satisfactory progress is not being made in carrying out all or any part of the Program in accordance with the terms of this Agreement;

then A.I.D. may, at its option:

- (i) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through the issuance of irrevocable Letters of Credit through bank payments made other than under irrevocable Letters of Credit, in which event A.I.D. shall give notice to the Borrower promptly;

- (ii) decline to make disbursements other than under outstanding commitment documents;
- (iii) decline to issue additional commitment documents;
- (iv) at A.I.D.'s expense, direct that title to goods financed under the Loan shall be transferred to A.I.D. if the goods are from a source outside the country of the Borrower, are in a deliverable state and have not been off-loaded in ports of entry of Colombia.

Any disbursement made or to be made under the Loan with respect to such transferred goods shall be deducted from Principal.

Section 8.04. *Cancellation by A.I.D.* Following any suspension of disbursements pursuant to section 7.03, if the cause or causes for such suspension of disbursements shall not have been eliminated or corrected within sixty (60) days from the date of such suspension, A.I.D. may, at its option, at any time or times thereafter, cancel all or any part of the Loan that is not then either disbursed or subject to irrevocable Letters of Credit.

Section 8.05. *Continued effectiveness of Agreement.* Notwithstanding any cancellation, suspension of disbursement, or acceleration of repayment, the provisions of this Agreement shall continue in full force and effect until the payment in full of all Principal and any accrued interest hereunder.

Section 8.06. *Refunds.* (a) In the case of any disbursement not supported by valid documentation in accordance with the terms of this Agreement, or of any disbursement not made or used in accordance with the terms of this Agreement, A.I.D., notwithstanding the availability or exercise of any of the other remedies provided for under this Agreement, may require the Borrower to refund such amount in United States dollars to A.I.D. within thirty (30) days after receipt of a request therefor. Such amount shall be made available first for the cost of goods and services procured for the Program hereunder, to the extent justified; the remainder, if any, shall be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder. Notwithstanding any of the provisions in this Agreement, A.I.D.'s right to require a refund with respect to any disbursement under the Loan shall continue for five years following the date of such disbursement.

(b) In the event that A.I.D. receives a refund from any contractor, supplier, or banking institution, or from any other third party connected with the Loan, with respect to goods or services financed under the Loan, and such refund relates to an unreasonable price for goods or services, or to goods that did not conform to specifications, or to services that were inadequate, A.I.D. shall first make such refund available for the cost of goods and services procured for the Program hereunder, to the extent justified, the remainder to be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder.

Section 8.07. *Expenses of collection.* All reasonable costs incurred by A.I.D. other than salaries of its staff, in connection with the collection of any refund or in connection with amounts due A.I.D. by reason of occurrence of any of the events specified in section 8.02 may be charged to the Borrower and reimbursed to A.I.D. in such manner as A.I.D. may specify.

Section 8.08. *Nonwaiver of remedies.* No delay in exercising or omission to exercise any right, power, or remedy accruing to A.I.D. under this Agreement shall be construed as a waiver of any such rights, powers or remedies.

*Article IX. MISCELLANEOUS*

Section 9.01. *Communications.* Any notice, request, document, or other communication given, made or sent by the Borrower or A.I.D. pursuant to this Agreement shall be in writing or by telegram, cable or radiogram and shall be deemed to have been duly given, made or sent to the Party by hand or by mail, telegram, cable or radiogram at the following addresses:

To the Borrower:

Mail address

Ministerio de Hacienda y Crédito Público  
Bogotá, Colombia

Cable address

MinHacienda  
Bogotá

To the Bank:

Mail address

Banco de la República  
Bogotá, Colombia

Cable address

Redesbanc

To the AID:

Mail address

USAID Mission to Colombia  
American Embassy  
Bogotá, Colombia

Cable address

AMEMBASSY  
Bogotá, Colombia

Other addresses may be substituted for the above upon the giving [of] notice. All notices, requests, communications, and documents submitted to A.I.D. hereunder shall be in English, except as A.I.D. may otherwise agree in writing.

Section 9.02. *Representatives.* For all purposes relative to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the Minister of Finance, the Bank by the person holding or acting in the Office of the General Manager, Financiacoop, and Cecora, by the person holding or acting in the office of General Manager, and A.I.D. will be represented by the individual holding or acting in the Office of Mission Director, USAID Mission to Colombia. Such individuals shall have authority to designate additional representatives by written notice. In the event of any replacement or other designation of a representative hereunder, Borrower shall submit a statement of the representative's name and specimen signature in form and substance satisfactory to A.I.D. Until receipt by A.I.D. of written notice of revocation of the authority of any of the duly authorized

representatives of the Borrower, designated pursuant to this section, it may accept the signature of any such representative or representatives on any instrument as conclusive evidence that any action effected by such instrument is fully authorized.

Section 9.03. *Implementation Letters.* A.I.D. shall from time to time issue Implementation Letters that will prescribe the procedures applicable hereunder in connection with the implementation of this Agreement. Nothing set forth in such Letter of Implementation shall either modify or alter the terms of this Agreement.

Section 9.04. *Promissory notes.* At such time or times as A.I.D. may request, the Borrower shall issue promissory notes or such other evidences of indebtedness with respect to the Loan, in such form, containing such terms and supported by such legal opinions as A.I.D. may reasonably request.

Section 9.05. *Successors to rights of A.I.D.* If by operation of any law of the United States, or by virtue of assignment, any corporate or other agency of the United States Government succeeds to the rights and obligations of A.I.D. under this Agreement, such agency shall be deemed to be A.I.D. for purposes of this Agreement.

Section 9.06. *Effective date of Agreement.* This Agreement shall enter into effect on the day and year first above written.

Section 9.07. *Termination upon full payment.* Upon payment in full of the Principal and of any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. under this Loan Agreement shall terminate.

IN WITNESS WHEREOF, Borrower, and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

The Government of the Republic of  
Colombia:

RODRIGO BOTERO M.  
*Title:* Minister of Finance  
and Public Credit

United States of America:

JAMES MEGELLAS  
*Title:* Director  
USAID Mission to Colombia

## ANNEX I

### *Loan Agreement 514-T-077*

#### THE PROJECT DESCRIPTION

1. The goal of this Project is the achievement of increases in the incomes of the rural poor who are or will be covered by this Project.

It is an underlying assumption of this Project that the cooperative system, with additional financial and technical resources as described below, can extend financial and technical services, directed to increasing small farmer productivity, rapidly and efficiently, to a large number of low-income rural small farmers.

The specific objectives of the Project are to strengthen the financial and technical capacity of all levels of the rural cooperative system in Colombia enabling it to: *a)* develop into a more viable, self-help mechanism able to offer qualitatively better and quantitatively increased services to its present rural farmer membership; and *b)* reach out to and attract into the

cooperative system additional numbers of low-income farmers who are not yet cooperative members.

The Project will provide production credit and marketing services to small farmers through cooperatives, which should serve to increase small farmer incomes directly by providing them with additional investment and working capital. This credit and the increased experience in credit intermediation will strengthen the financial position of the rural cooperative system, as will the additional savings to be generated by the increases in income expected from the Project. Such strengthening of its financial position will then enable the cooperative movement to further operate to increase the incomes of the rural poor in Colombia.

The strengthening of the cooperative movement is to occur at three levels. First, the availability of production and marketing credit for cooperatives and their members should serve to stimulate the strengthening of existing rural cooperatives and lead to the development of new ones. Secondly, the cooperative federations to be eligible as borrowers, on behalf of their member rural cooperatives, are expected to increase their representational and services role in reaching their individual affiliates. Thirdly, the national level cooperative financing agency will be stimulated and assisted to better serve as a channel for additional financial resources to the rural cooperative movement.

2. *The target group.* The target group (that segment of the population towards which the resources of this Project are to be directed) is composed of low-income, rural small farmers.

The detailed definition of the target group will be determined by the Cooperative Project Committee (to be established in accordance with the provision of the following paragraph) and presented for the approval of A.I.D. prior to any disbursement of A.I.D. funds under this Project. The criteria for defining the target group may include farm size, type of farming operation, annual farm income, etc. The Project is oriented to farmers with annual net income of less than \$800 or who own farms of less than 10 hectares.

Thus the Project will focus resources on cooperatives that serve primarily the defined target group and which are located principally in regions where Rural Integrated Development (DRI) programs will be executed and in which this target group is a quantitatively important segment of the total population. As a working guide such a cooperative shall have approximately two thirds of its membership falling within the target group definition.

3. *The Project.* Project financial inputs are detailed below. Project resources will be channelled through the Bank of the Republic (BOR) which will lend to Institute of Cooperative Financing (Financiacoop) and Agrarian Reform Cooperative Federation (Cecora), entities that will create Revolving Funds for the management of such resources and the counterparts.

(1) Oversight responsibility for the coordination, allocation and evaluation of the end use of Project resources will be assigned to a Cooperatives Project Committee to be established as a part of the Project.

Responsibilities of the Committee will include:

- a) to establish general guidelines concerning the use of project resources, which will include the selection of areas for priority concentration and definition of the target group;
- b) to define the lending policies of the Project which Financiacoop and Cecora will follow relative to terms, interest rates and other lending criteria;
- c) to establish the requirements that individual cooperatives must meet to receive loans under the Project;
- d) to establish terms and conditions of subloans to be made by cooperative federations under the Project.

The above guidelines will be formally issued by the Project Committee prior to approval of Project loans. Any subsequent modification or revision of these guidelines shall also be formally issued by the Project Committee prior to becoming effective.

The Project Committee shall also be responsible for establishing an evaluation procedure to insure that the Project is being implemented in accordance with the established guidelines.

The Committee will be composed of representatives from: Agrarian Studies Unit of the National Department of Planning; Ministry of Agriculture; National Superintendent of Cooperatives; Financiacoop, Cecora and Bank of the Republic.

#### A. PROJECT ELEMENTS

Project resources will finance the two main Project activities: production credit through rural cooperatives, and also for marketing subprojects; and a cooperatives institutional development activity.

##### (i) *Financiacoop activities (agricultural and marketing production)*

(1) Up to \$5.875 million equivalent will be used to finance agricultural credit for rural cooperatives; approximately \$3.25 million will be provided by the AID loan.

(2) And US\$0.875 million equivalent will be provided by Financiacoop from new resources. The credit will be used in its entirety for agricultural production and marketing purposes and will be subloaned to individual cooperative members to finance agricultural production credit, farm equipment and infrastructure, and working capital. The Cooperatives Project Committee will have responsibility for setting priorities for use of the funds. At least 80 percent of the total credit available for these purposes is to be channelled by Financiacoop to individual cooperatives.

Subject to the approval of specific projects in accordance with guidelines defined by the Project Committee, Uconal, a Federation of Credit Unions will be allocated approximately 30 percent (US\$1.85 million) of the funds available for agriculture production purposes for relending to its member credit unions and cooperatives.

The Project Committee will determine if Federations and Cooperatives can guaranty their loans through the endorsement of the outstanding credit loan portfolio of the beneficiaries.

(3) Proposed Financiacoop activities to be financed under this Project will be approved by the Project Committee.

##### (ii) *Cecora activities (agricultural marketing)*

Up to \$2.250 million equivalent will be available to finance agricultural marketing activities: up to \$1.5 million of these funds will be provided from the A.I.D. loan for these purposes; and the GOC will provide \$0.750. Specific investments in marketing activities will be undertaken either directly by Cecora or Cecora's member cooperatives with Cecora guidance. Two main types of subprojects are expected to be financed: *a*) an extension and/or consolidation of some current Cecora activities for which preliminary feasibility studies have already been completed; and *b*) new marketing subprojects growing out of Cecora's expanded involvement in government-identified DRI districts as well as Cecora's own marketing promotion efforts.

Proposed Cecora activities to be financed under this Project will be approved by the Project Committee.

##### (iii) *Technical and administrative assistance services for Financiacoop and its member federations*

Up to \$250,000 from the Loan, will be assigned to Financiacoop and its federation members for administrative and technical services.

Financiacoop will provide the terms of reference for the Technical and Administrative services required and then submit them to the Project Committee.

##### (iv) *Cooperative institutional development*

This part of the Project, although intimately linked to the credit portion of the Project, does not directly involve loan financing. An AID grant will finance promotional and service activities

of Uconal (Unión Cooperativa Nacional), on behalf of its rural cooperatives; the National Superintendency of Cooperatives, financed by Government budget funds, will be financing cooperative leadership training.

### B. FINANCING PLAN (*\$000 of dollars*)

Project components	AID	GOC*	Financiacoop	Sources	
				Individual sources	Total sources
1. Financing sources					
a. Financiacoop activities					
Marketing and agr. production	3.250	1.750	0.875	(875*)	7.000
b. Technical assistance . . . . .	0.250				
c. Cecora activities (marketing) .	1.500	750		(750)	3.000
TOTAL	5.000	2.500	0.875	(1.625)	10.000
2. Institutional development . . . . .	480 <sup>1</sup>	180	—	—	660

\* The GOC contribution in the case of Financiacoop pertains to the rediscount lines of the Bank of the Republic, established in favor of the mentioned entity. In the case of Cecora it pertains to the rediscount warehouse bonds. The individual cooperatives contribution will be dedicated to the subprojects, and not to increase the capital of the Revolving Fund.

<sup>1</sup>Financed with an AID grant.

(Footnotes in the original.)

### C. THE MECHANISM

The funds provided under this loan will be channelled by BOR. The BOR will loan such funds to Financiacoop, a private secondary lending institution owned by Colombian Cooperatives, and to Cecora.

Financiacoop will sublend such resources under the agricultural production or marketing credit portion of the Project to specific eligible rural cooperatives for final lending to small farmers. At least 80 percent of the subloans made under the credit activity of the Project are to pass through cooperative federations.

Under the marketing activities portion of the Project, BOR will loan resources to Cecora for investment in specific marketing activities. Up to 50 percent of the funds available for these activities will be allocated to a loan for working capital for Cecora's feed grain subproject.

The other part of such resource of the marketing activities portion of the Project will finance new Cecora marketing activities especially in DRI regions.

To assure efficient Project implementation, and to assure the credits made available under this Project are of direct benefit to the target group, eligibility criteria for sub-borrowers are to be employed by Financiacoop and Cecora for application to cooperative federations, cooperatives, and final borrowers.

The Cooperatives Project Committee will develop a positive list of rural cooperatives, especially those located in DRI areas, eligible to borrow under the Project. The criteria for inclusion on the list may be further refined but it is expected that two thirds of the eligible cooperative's members will be small farmers. In addition, the cooperative will have to demonstrate that its management is qualified to receive the additional credit resources by prior training and experience or that it has contracted with a competent organization (e.g. Sena) to provide training to assure adequate management capacity. The cooperative will also be required to assign at least two percentage points of the interest charged to final users on Project funds to

agricultural technical assistance for its members. That assistance may be acquired under contract with public or private agencies or by the cooperative's employment of its own agronomist(s).

With respect to the marketing activities portion of the Project, the eligibility of the marketing investments submitted by Cecora will be subject to the following criteria: that all investments in excess of US\$100,000 in peso equivalent be supported by the findings of feasibility studies acceptable to the National Planning Department and AID; that no more than 50 percent of the funds allocated to Cecora activities be devoted to the feed grains project; that at least half the funds available to Cecora be allocated to new marketing investments specifically benefitting small farmers in the priority areas.

As a condition of its receiving assistance under the Project, Cecora will be expected to promote the development of marketing cooperatives or marketing activities in priority areas, with a focus on low-income farmers. For example, special cooperative and agricultural marketing courses for low-income farmers in the DRI areas can be held, with program financing assumed by Cecora as a condition of receiving credits from the Fund.

#### D. PROJECT OUTPUTS

At the most basic level, the Project will have outputs in the form of increased loans to small farmers and increased capital for marketing of small farmer products.

These project outputs will represent a strengthening of the small farmer rural cooperatives system in Colombia. This strengthening is to occur in several fashions. A large number of new cooperatives is expected to be created, especially in small farmer areas, and cooperative membership, both in new and existing cooperatives, is to substantially increase. Secondly, the structure of the movement will be strengthened by increased effectiveness of cooperative federations and cooperative financing agencies (e.g. Financiacoop) in reaching the individual cooperatives with essential services. A measurement of the extent to which this strengthening occurs can be the extent to which existing unaffiliated rural cooperatives decide to join such entities. Also, the increased strength of the cooperative movement will be measured by the extent to which new savings come into the system.

Finally, through periodic sample surveys of credit recipients, the progress of the Project in increasing incomes of small farmer credit receivers may be considered satisfied if the small farmer recipients of credit under the Project have annual income increases of 9 percent or more.

#### E. INTEREST RATES

As described above, there will be two sections to this project: the agricultural production credit relending and the marketing activities relending.

##### *Loans for Financiacoop activities (agricultural and marketing subloans)*

Financiacoop will charge an interest rate of 9 percent to the cooperative federations for subloans made with project resources; with normal capitalization requirements of Financiacoop, if any, additional. Federations in turn will lend to rural cooperatives at 12 percent. The interest spread allowed the federations is to provide for the financing of increased services, particularly in cooperative education, to existing and new members. Any direct loans to be made by Financiacoop to rural cooperatives will be made at 12 percent. The additional increment of interest to Financiacoop on these direct loans (e.g. 3%) may be allocated to increase Financiacoop educational reserve fund. The interest spread earned must be oriented for rural cooperative education.

Rural cooperatives receiving funds from Financiacoop either through cooperative federations or directly will charge a minimum of 18 percent on subloans to individual members. Financiacoop loans of either type will carry a condition which requires the local cooperative to allocate at least 2 percentage points of this 6 percent margin to finance the costs of agricultural technical assistance to its membership.



*Loans for Cecora activities*

The loans authorized through BOR for projects submitted by Cecora will carry an interest rate of 9 percent with terms dependent on recommendations of feasibility studies included in the subloan request. Cecora will devote two points of the loan funds to promotional and educational activities of rural cooperatives.

*Interest rate review*

During the annual review of interest rates, consideration will be given to maintaining the margin of difference of 2 and 3 points between BOR, Financiacoop, Federations and Cooperatives.

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