

No. 16309

**UNITED STATES OF AMERICA
and
COLOMBIA**

**Loan Agreement relating to small farmer development in
Colombia (with annex). Signed at Bogotá on 14 June
1976**

Authentic text: English.

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

**ÉTATS-UNIS D'AMÉRIQUE
et
COLOMBIE**

**Accord de prêt relatif au développement des petites entre-
prises agricoles de Colombie (avec annexe). Signé à
Bogotá le 14 juin 1976**

Texte authentique : anglais.

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

ALLIANCE FOR PROGRESS LOAN AGREEMENT¹ (COLOMBIA — SMALL FARMER DEVELOPMENT LOAN) BETWEEN THE INSTITUTO COLOMBIANO AGROPECUARIO AND THE UNITED STATES OF AMERICA

Dated: June 14, 1976

AID Loan No. 514-T-080

LOAN AGREEMENT dated the 14th day of June, 1976, between the NATIONAL AGRICULTURE AND LIVESTOCK INSTITUTE (“ICA”) (“Borrower”) 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 three million four hundred thousand dollars (\$3,400,000) (“Loan”) to assist the Borrower in carrying out the Project referred to in section 1.02 (“Project”). The Loan shall be used exclusively to finance local currency costs (“Local Currency Costs”) and dollar costs of goods and services required for the Project (Dollar Cost). The aggregate amount of disbursements under the Loan is hereinafter referred to as “Principal”.

Section 1.02. *The Project.* The Project shall consist of: the local cost for the research and extension/diffusion program and the dollar costs of the required training and technical assistance.

The Project is more fully described in Annex I, attached hereto, which Annex may be modified by mutual agreement of the parties in writing. The procedures for securing goods and services to be financed under the Loan shall be described in the implementation letters referred to in section 9.03 (“Implementation Letters”).

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 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.

¹ Came into force on 14 June 1976 by signature, in accordance with section 9.06.

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 (9 ½) 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 Agency for International Development, Cashier, SER/CONT, 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.

Article III. CONDITIONS PRECEDENT TO DISBURSEMENT

Section 3.01. *Conditions precedent to initial disbursement of 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.:

- (a) an opinion or opinions of the Legal Advisor of the Borrower or such other counsel as A.I.D. may agree to, 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 Government of Colombia (Guarantor) has issued a valid and legally binding full faith and credit guaranty of repayment with respect to this Loan;
- (d) a detailed time-phased project implementation plan and an evaluation plan for the Program;
- (e) evidence that the Borrower has arranged for the administrative and accounting services necessary for the Program; and
- (f) evidence that all necessary professional personnel required by the Borrower to perform the Project have been hired or are immediately available.

Section 3.02. *Terminal dates for meeting conditions precedent to disbursement.* If all of the conditions specified in section 3.01 shall not have been met within ninety (90) days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, 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 3.03. *Notification of meeting of conditions precedent.* A.I.D. shall promptly notify the Borrower when A.I.D. has determined that the conditions precedent to disbursement have been met.

Article IV. GENERAL COVENANTS AND WARRANTIES

Section 4.01. *Execution of the Project.* The Borrower shall carry out the Project with due diligence and efficiency, and in conformity with sound research, educational, financial, administrative principles, and also in accordance with all of the related plans, specifications, contracts, schedules, and other arrangements, including all modifications therein.

In this connection, the Borrower shall at all times employ suitably qualified and competent personnel to carry out subprojects and shall contract suitable qualified and experienced consultants, where appropriate, in connection with the Project set forth in Annex I, to be professionally responsible for the planning and execution of the Project.

A.I.D. reserves the right to review such plans, specifications, contracts, schedules, and other documents related to the Project, as may be appropriate.

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 Project. In cases where *force majeure* affects the original scope of the Project, 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 Project, the performance by the Borrower of its obligations under this Agreement, the performance of the consultants, contractors, and suppliers engaged in the Project, and other matters relating to the Project.

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

Section 4.05. *Operation and maintenance.* The Borrower shall operate, maintain, and repair the facilities constructed and equipment procured under the Project in conformity with sound engineering, financial, administrative, and mechanical practices, and in such manner as to insure the continuing and successful achievement of the purpose of the Project.

Section 4.06. *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 4.07. *Utilisation of goods and services.* (a) Goods and services financed under the Loan shall be used exclusively for the Project, except as A.I.D. may otherwise agree in writing. Upon completion of the Project, or at such other time as goods financed under the Loan can no longer usefully be employed for the Project, the Borrower may use or dispose of such goods in such manner as A.I.D. may agree to in writing prior to such use or disposition.

(b) Except as A.I.D. may otherwise agree in writing, no goods or services financed under the Loan shall be used to promote or assist any foreign aid project or activity associated with or financed by any country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

Section 4.08. *Disclosure of material facts and circumstances.* The Borrower represents and warrants that all facts and circumstances that they have disclosed or caused to be disclosed to A.I.D. in the course of obtaining the Loan are accurate and complete, and that they have disclosed to A.I.D. accurately and completely, all facts and circumstances that might materially affect the Project and the discharge of their 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 Project or the discharge of the Borrower's obligations under this Agreement.

Section 4.09. *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, they have 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.

(b) The Borrower warrants and covenants that no payments have been or will be received by the Borrower or any official of the Borrower, in connection with the procurement of goods and services financed hereunder, except commissions, fees, taxes, or similar payments legally established in the country of the Borrower.

Section 4.10. *Maintenance and audit of records.* The Borrower shall maintain, or cause to be maintained in accordance with sound accounting principles and practices consistently applied, books and records relating both to the Project 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 provision of Annex I;
- (b) disbursements of funds made available under the Loan to the Borrower in accordance with the provisions of Annex I;
- (c) disbursements made by the Borrower of the funds received in accordance with the Project;
- (d) the receipt and use made of goods and services acquired with funds disbursed pursuant to this Agreement;
- (e) the nature and extent of solicitations of prospective suppliers of goods and services acquired;
- (f) the basis of the award of contracts and orders to successful bidders; and
- (g) the progress, both financial and qualitative, of the Project, in sufficient detail (as shall hereafter be specified in Implementation Letters) to enable A.I.D. to review requests for releases 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 4.11. *Reports.* The Borrower shall furnish to A.I.D. such information and reports relating to the Loan and to the Project as A.I.D. may request.

Section 4.12. *Inspections.* The authorized representative of A.I.D. shall have the right at all reasonable times to inspect the Project, the utilization of all goods, facilities and services financed by Loan funds or by Borrower's contribution, and the Borrower's books, records, and other documents relating to the Project 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. Prior to undertaking any inspections pursuant to the provisions of this section, however, A.I.D. hereby undertakes to advise the Borrower of its intent to exercise its rights hereunder. The Borrower shall: (a) upon request extend to A.I.D. the right to inspect the books, records and other documents relating to the Project; and (b) insert, or cause to be inserted in all contracts with private entities, whether financed directly or through an intermediary under the Loan, a clause extending to A.I.D. the right to make inspections in accordance with this section.

Article V. SPECIAL COVENANTS AND WARRANTIES

Section 5.01. *Borrower's contribution.* Borrower covenants that its contribution to the Project, as described in Annex I hereof, shall be provided in a timely manner, and in accordance with the provisions set forth therein.

Section 5.02. The Borrower covenants that such technical packages as may be forthcoming as a result of the research financed by this Loan will be disseminated to the appropriate target groups by the appropriate extension agencies and that all other steps necessary to the implementation of those packages will be taken.

Article VI. PROCUREMENT

Section 6.01. *Procurement from selected free world countries.* Except as A.I.D. may otherwise agree in writing, and except as provided in section 6.08 (c) hereof with respect to marine insurance, disbursements made pursuant to section 7.01 shall be used exclusively to finance the procurement for the Project 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”). All ocean shipping financed under the Loan shall have both its source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time of shipment.

Section 6.02. *Procurement from Colombia.* Disbursements made pursuant to section 7.02 shall be used exclusively to finance the procurement for the Project 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 into 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 Project, 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 Project, but not financed under the Loan, 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.

Section 6.08. *Shipping and insurance.* (a) Selected Free World Goods financed under the Loan shall be transported to Colombia on flag carriers of any country included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of shipment. No such goods may be transported on any ocean vessel (or aircraft) (i) which A.I.D. in a notice to the Borrower has designated as ineligible to carry A.I.D.-financed goods or (ii) which has been chartered for the carriage of A.I.D.-financed goods unless such charter has been approved by A.I.D.

(b) Unless A.I.D. shall determine that privately owned United States-flag commercial vessels are not available at fair and reasonable rates for such vessels:

- (i) at least fifty percent (50%) of the gross tonnage of Selected Free World Goods financed under the Loan and transported on ocean vessels from United States ports (computed separately for dry bulk carriers, dry cargo liners and tankers) shall be transported on privately owned United States-flag commercial vessels;

and at least fifty percent (50%) of the gross freight revenue generated by ocean shipment of Selected Free World Goods financed under the Loan and transported on dry cargo liners from United States ports shall be paid to or for the benefit of privately owned United States-flag commercial vessels;

- (ii) at least fifty percent (50%) of the gross tonnage of all Selected Free World Goods financed under the Loan and transported on ocean vessels from non-United States ports (computed separately for dry bulk carriers, dry cargo liners and tankers) shall be transported on privately owned United States-flag commercial vessels; and at least fifty percent (50%) of the gross freight revenue generated by ocean shipments of Selected Free World Goods financed under the Loan and transported on dry cargo liners from non-United States ports shall be paid to or for the benefit of privately owned United States-flag commercial vessels.

(c) Marine insurance on Selected Free World Goods may be financed under the Loan with disbursements made pursuant to section 7.01, provided (i) such insurance is placed at the lowest available competitive rate in Colombia or in a country included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time of placement, and (ii) claims thereunder are payable in freely convertible currency. If in connection with the placement of marine insurance on shipments financed under United States legislation authorizing assistance to other nations, the country of the Borrower, by statute, decree, rule or regulation, favors any marine insurance company of any country over any marine insurance company authorized to do business in any state of the United States of America, Selected Free World Goods financed under the Loan shall during the continuance of such discrimination be insured against marine risk in the United States of America with a company or companies authorized to do a marine insurance business in any state of the United States of America.

(d) The Borrower shall insure, or cause to be insured, all Selected Free World Goods financed under the Loan against risks incident to their transit to the point of their use in the Project. Such insurance shall be issued upon terms and conditions consistent with sound commercial practice, shall insure the full value of the goods, and shall be payable in the currency in which such goods were financed or in any freely convertible currency. Any indemnification received by the Borrower under such insurance shall be used to replace or repair any material damage or any loss of the goods insured or shall be used to reimburse the Borrower for the replacement or repair of such goods. Any such replacements shall have their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts are entered into for such replacements, and shall be otherwise subject to the provisions of this Agreement.

Section 6.09. *Notification to potential suppliers.* In order that all United States firms shall have the opportunity to participate in furnishing procurement to be financed under the Loan pursuant to section 7.01, the Borrower shall furnish to A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Implementation Letters.

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 Project 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 A.I.D. shall make available to the Borrower, upon Borrower's request, an advance of local currency for Local Currency Costs for goods and services for the Project of not to exceed US \$300,000. Such amount shall, thereafter, be replenished, up to the original advance, upon written request by the Borrower and supported by such documentation as A.I.D. may reasonably request, on a reimbursement basis.

All of Borrower's requests for reimbursement by A.I.D. will be accompanied by satisfactory evidence of its claimed expenditures. Regular financial reports and certified copies of payment orders for goods and services purchased in support of the subprojects of this Loan will be accepted as satisfactory evidence.

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)* in the case of disbursement pursuant to section 7.01, on the date on which A.I.D. makes a disbursement to the Borrower, to its designee, or to a banking institute pursuant to a Letter of Commitment, and *b)* in the case of disbursement pursuant to section 7.02, on the date on which A.I.D. disburses the local currency to the Borrower or to 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 the conditions precedent set forth in section 3.01 have been met, 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 said conditions have been met. 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 Project 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 Borrower and/or 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 Project 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 8.03, 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 Project 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 three 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 Project 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

Edificio Colgas
Bogotá, Colombia

Cable address

ICA
Bogotá [, Colombia]

To A.I.D.:

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 General Manager, ICA, 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.

Instituto Colombiano
Agropecuario (ICA):

[Signed]

By: RAFAEL MARIÑO NAVAS
Title: General Manager
ICA

United States of America:

[Signed]

By: VIRON P. VAKY
Title: Ambassador of the United States
of America to Colombia

[Signed]

By: JAMES MEGELLAS
Title: Director
USAID Mission to Colombia

A N N E X I

DESCRIPTION OF THE PROGRAM

The Project is intended to define a process by which the constraints to small farmer development can be identified and overcome in any one geographic region of Colombia. Utilizing an integrated approach, the Project will test various alternative possibilities for achieving the stated purpose and goal. The work in any one region selected for the Project will require 36 months. Three such regions will be operating simultaneously, with feed-back and information transfer among the development teams. Utilizing the results of the research and implementation in all of the regions, the Project will define an appropriate process (system) for the cost-effective application of development resources to Colombia's small farmers.

The Project will develop a system for helping to solve small farmer problems. This will be accomplished through the identification, design, development and delivery of appropriate improved technology and other critical services. The system will be transferable among areas and will have component sub-systems, as follows:

- a. a sub-system to describe and analyze the small farmer, his strengths and weaknesses, his technology and his problems;
- b. a sub-system of adaptive research directed toward the development of appropriate small farmer technology;

- c. a sub-system for devising methods of delivery of critical services including agricultural technology and risk aversion schemes to small farmers;
 - d. a sub-system for encouraging local small farmer organization to assist in the functioning of *b* and *c* above;
 - e. a sub-system for evaluation and monitoring all Project activities.
- a. *A sub-system to describe and analyze the small farmer*
 - i. *Desk analysis*

This portion of the Project will focus on the use of existing information in an attempt to learn as much as possible in a short time about the regions chosen for the Project, the small farmers in those regions and available technology which might benefit the target group. The information will consist of completed studies (i.e., ICA studies, Agricultural Census, Coffee Federation Census, Cadaster Data, Sociological Monographs, OPSA, etc.). This portion of the Project should be completed during the first three months of Project implementation.

This information will provide a baseline in each Project area. The baseline will include agricultural output and income for small farmers by asset holding. In addition to the baseline, existing small farmer technologies will be defined. Particular attention will be given to input-output relations for each production line, intrafarm production interrelations and the natural environment. The Project would then, using existing farm data, determine the actual production process on a crop-by-crop and farm system (perhaps concentrating on those crops given priority in the National Food and Nutrition Plan) basis for each area selected.

- ii. *Field analysis*

Additional information to complement the desk analysis will be required. Field analysis will be conducted at an "area-wide level" and on specific farms in a sub-zone of the area. The area-wide-level analysis will be utilized to determine the appropriate sub-zone. This portion of the project will be carried out simultaneously with the desk analysis and will be completed within five months of the initiation of implementation.

Area level. This analysis will be conducted under the guidance of a three-man team assigned primary responsibility in each of the six Project areas. The team will consist of ICA specialists with backgrounds and experience in agricultural economics, anthropology or sociology, and agronomy. The specific description of the level of education and types of experience of the team will be provided by ICA. The Project Team will be supported by other specialists from ICA as the particular situation in the field dictates.

The Project Team (PT, ICA) will work directly with the local ICA office to examine the preselected Project areas. Since the pre-selection of the exact counties was completed from a desk, their first task will be to establish precise boundaries for each market center. The six market centers will be the primary focus of the first stage of the Project.

The PT, assisted by the local ICA office and outside specialists as necessary, will conduct an inventory of the market area. The inventory is intended to provide an understanding of the fundamental relationships within the area, and between the area and the larger economic and social system of the region.

The PT, utilizing both the desk and field analysis, will designate a sub-zone (or more than one if necessary) within the market center which encompasses all of the major agricultural characteristics of the target group to be found in the area.

Farm level. The purpose of this farm level analysis is to complement the information obtained from both the desk and area level analyses with observations of actual farms. This is necessary additional information in order to determine: 1) what the farmers are doing, 2) how they are doing it, and 3) why they are doing it that way.

Farm-level analysis will be conducted by ICA agricultural technicians from the local office under the direction of the Project Team. It will be conducted on representative farms

within the representative sub-zone selected in the project area. The farm-level analysis will utilize detailed input-output records to document the production practices of a small number of target group farmers. The ICA agricultural technicians will visit the cooperating farmers weekly, and record their labor, as well as cash and in-kind inputs and outputs. They will also note the cultural practices, etc., of each farmer. They will pay particular attention to the reasons why the farmers undertake some production methods, and not others. By visits with many farmers in the sub-zone the ICA technicians will identify local members of the target population who could be used as "diffusion agents" in the Project (see sub-system *c*).

b. *A sub-system of adaptive research directed toward the development of appropriate small farmer technology*

There will be a need for more "basic" field development of agricultural technology necessary to overcome important constraints to small farmer output and income which have been identified through the process described in *a* above, but for which no solutions are presently available. The experimentation to test promising technology will be conducted on farmers' own land, under their conditions, supervised by the Project Team and assisted by the ICA local staff. In developing these experiments, the Project Team will draw upon:

- the concepts and operating procedures set forth in the preliminary Technical Assistance Manual for Small Farmers prepared in 1976 by ICA; this Manual will be field tested and as appropriate modified in order to develop procedures which can be approved by ICA for general use in providing small farmer technical assistance;
- local farmers, through individuals as well as groups with meetings and discussion, to obtain their understanding of what will or will not work, what is or is not needed early in this phase;
- past ICA research and researchers who have experimented with various new cropping varieties or cropping systems; the results of the ICA experimental projects in small farmer development at Cáqueca and elsewhere will be particularly valuable; the resources of the ICA main research station at Tibaitatá will be available;
- other research ongoing in Colombia including the work at CIAT in Cali and other government, private, or international assistance agency-sponsored research;
- research efforts under way in multi-cropping systems in Guatemala, El Salvador or other appropriate and similar research stations outside Colombia;
- ICA will attempt to replicate what appears from the analysis to be the best technology being used by the small farmers in the area; this will help ICA understand why the farmer does what he does.

This research will take place primarily in the project areas and will be tested on actual small farms in the areas. The important part of this sub-system will be the criteria used for directing and evaluating the research effort. The criteria will include the economic efficiency benchmark, the information obtained from the farmers regarding what will and will not work, limitations due to the natural environment, marketing constraints, the other enterprises on the farm, etc., established in sub-system *a*. In short, new technology will be designed and developed on the basis of its potential application by the target farmer to increase his net farm income.

c. *A sub-system for devising methods of delivery of critical services including agricultural technology and risk aversion schemes to small farmers*

The combination of the analyses carried out under sub-system *a* up to this point in time (i.e., fifth month of implementation) will provide the PT with some information which, if extended, would increase the net income of the target group. This information would consist of the best technology (see sub-system *a*) being used by the target group in the area. This technology will be extended throughout the sub-zone by the local farmer diffusion agents, under the direction of the Agricultural Technical Assistance RDD (DATEA).

The DATEA staff will select volunteer and/or leader farmer diffusion agents based on the following criteria:

- a) included within the target group of the Project;
- b) respected by their peers;
- c) willing to act as a change agent within the local community;
- d) familiar with a particular technique which is to be extended.

These volunteer agents will be under the supervision of ICA, PTs, and will work within a defined number of hours' walk from their respective farms. These agents will not be permitted to work full-time, so they will continue their own farming endeavors. The ICA technicians may also provide some training in the techniques of communication. The diffusion agents will provide much of the basic data which will be utilized to monitor and evaluate the success of various aspects of the Project.

The use of these agents within the sub-zone will be evaluated in six to eight months after they begin to work (i.e., 11 to 13 months of Project implementation). Each of the diffusion agents will report the names of all the farmers with whom they are working to the PT. They will also inform the PT of the number of visits they are making to each farm and which farmers have adopted. The evaluation of effectiveness will consist of spot checks by the PT with the diffusion agents' clients. If it is determined that they have been effective they will be expanded to the market area.

This sub-system will also attempt to test alternative methods of other critical services. The appropriate agent might be private industry, cooperative producer federations or even a government entity. The purpose of the contract would be essentially a grant to induce the appropriate agent to test an unknown system of delivery. This might involve the delivery of inputs, technology, markets or some combination.

Some examples to be tested are:

- producer federations of small farmers;
- producer-marketing cooperatives;
- private enterprise.

Each of these examples will have several variations depending on the area of the country, the commodities involved and, perhaps most importantly, the desires and needs of the small farmer. The Project will determine the viability of a number of alternative delivery systems.

d. *A sub-system for encouraging local small farmer organizations to assist in b and c*

While the benefits are well known, the operational knowledge required to assist nascent organizations to assume the roles described above, or to create new organizations to fill these functions, has not been documented. There is no known formula which can identify beforehand the potentially progressive local leaders to be included who are likely to serve as obstacles to change. Nor is there a clear understanding of the types of organizations (geographic associations, producers' groupings, consumer clubs) or the appeals (income, local solidarity, decision-making responsibility, leadership positions) which are most appropriate for a specific environment. Finally, no solid guidelines have been developed which suggest how, when existing organizations cannot or will not serve the necessary functions (for example, when they are controlled by large farmers), new organizational structures should be formed and supported.

These unknowns will be subject to test in the Project. This task will be initiated during the area-level survey, which will identify existing organizations, membership, and functions performed for the target population. To the extent possible, the leadership will be included in initial discussions or Project implementation plans, including appropriate technology, extension methods and rural services delivery. Diffusion agents will be selected from within existing organizations, with the intention to use this vehicle for further inclusion of the local

population in project activities and decision making. An agreement will be signed between ICA and the organization, to assure that both are committed to similar development goals among small farmers, specifying the services which ICA can supply, outlining the contributions expected of the membership of the organizations to be assisted.

The ICA Project Team will consider the potential impact on local organizations within the Project area. When appropriate, the Project will use incentives to encourage and assist the organizations in assuming a larger role in the development process, both in the provision of services and in extending the number of participants who can receive such services. This might include undertaking input purchases for resale, holding demonstrations of new techniques under the organization's auspices, encouraging savings and loan associations if credit needs cannot be met from institutional or private sources, collecting output for bulk marketing, etc.

Finally, the small farmer organizations, either those strengthened or newly formed, will be encouraged to sell their services to participants to allow a continuing flow of benefits to their clientele after the Project funds have been exhausted.

e. *A sub-system for evaluation and monitoring of all Project activities*

The Project is designed to test a set of sub-systems which together should provide a system to overcome the constraints to increased income for small farmers. There is a need to carefully insure that the test of each component of the Project, as well as the components taken together as a system, provide verifiable evidence that the changes measured in small farmer welfare can be attributed to Project activities. Due to this fact, the monitoring and evaluation activities will be an integral part of the Project, with the project monitoring and evaluation unit (DES/ICA) created and employed as the Project teams go to the field.

f. *Technical assistance*

Approximately 60 manmonths of technical assistance will be required for the Project. Assistance will be required for the analysis and description and the information-evaluation-monitoring component. This assistance will be primarily provided by social scientists, economists, agricultural economists, sociologists and information systems specialists. This technical assistance will amount to approximately 10 manmonths.

Due to the complexity of the Project, some long-term assistance for overall Project guidance and implementation is desirable. This assistant should be an experienced rural development expert. This assistance will amount to approximately 30 manmonths.

The remaining 10 manmonths of assistance will be in the form of short-term consultants in the area of specific technology development. This will include experts in the fields of agricultural engineering, specific crops, small animals, etc.

g. *Technical interchange*

An additional \$50,000 of loan funds would be used to provide for an interchange among various small farmer development efforts throughout the world. The funds would be used for travel of ICA personnel to observe, first hand, other small farmer Projects and to bring personnel of other Projects to view the Colombian effort. In addition, funds would be used to sponsor one or two seminars where technicians and Project Managers from various places could share their experiences with each other.

THE REGIONS

Three regions of the country have been tentatively selected for Project implementation in order to provide a more adequate basis for testing the system. However, further analysis is necessary to further define Project regions and areas. The regions selected are:

Region I. Northern Santander, including the counties of Cucuta, Arboleda, Salazar de las Palmas, Gramalote, Lourdes, Pamplona, Utsucua, Bochalema, Pamplonita, Toledo and Cucutilla.

Region II. Northwest Antioquia, including the counties of Dabeiba, Frontino, Abriaquí, Cañasgordas, Giraldo, Buritica and Antioquia, Mutata, Chigorodo, Apartado, Turbo, San Pedro de Urabá and Arboleda.

Region III. South Huila, including the counties of Pitalito, San Agustín, Timaná, Acevedo, Elías, Isnos, Oporapa, Saldoblanco, Garzón, Agrado, Altamira, Gigante, Guadalupe, Pital, Sta. María, Suaza and Tarquí.

THE TARGET GROUP

National Food and Nutrition Plan has defined the target population as the lower 50 per cent of the income distribution and for purposes of rural development as those farmers with between 1 and 20 hectares of available land, who devote at least 80 percent of their family labor to the farm enterprise. Within the above criteria for the purposes of this Project, a specific target group will be defined in each Project area. This definition will be made during the subsystem *a* phase of the Project. To the extent practical the target group will be composed of farmers with diversified farming systems rather than single-enterprise systems such as dairy production.

THE PROGRAM COSTS

	Year 1		Year 2		Year 3		Total	
	AID	GOC	AID	GOC	AID	GOC	AID	GOC
Subsystem <i>a</i>	194.5	83.3					194.5	83.3
Subsystem <i>b</i>	379.6	162.9	338.0	144.9	369.6	158.4	1,087.2	466.2
Subsystem <i>c</i>	416.8	178.5	362.3	155.2	48.8	196.6	1,237.9	530.3
Subsystem <i>d</i>	82.5	35.3	76.5	32.8	92.5	39.6	251.5	107.7
Subsystem <i>e</i>	88.7	38.0	64.9	27.8	70.8	30.4	244.4	96.2
Technical assistance	350.0						350.0	
Technical interchange	16.6		16.6		16.8		50.0	
TOTAL	1,528.7	498.0	858.3	360.7	1,008.5	425.0	3,395.5	1,283.7