

No. 16577

**UNITED STATES OF AMERICA
and
PARAGUAY**

Loan Agreement for small farmer development (with annex). Signed at Asunción on 30 June 1975

Amendment to the above-mentioned Agreement (with annex). Signed at Asunción on 7 December 1976

Authentic texts: English and Spanish.

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

**ÉTATS-UNIS D'AMÉRIQUE
et
PARAGUAY**

Accord de prêt relatif au développement des petites exploitations agricoles (avec annexe). Signé à Asunción le 30 juin 1975

Avenant à l'Accord susmentionné (avec annexe). Signé à Asunción le 7 décembre 1976

Textes authentiques : anglais et espagnol.

Enregistrés par les États-Unis d'Amérique le 27 avril 1978.

ALLIANCE FOR PROGRESS LOAN AGREEMENT¹ BETWEEN THE
GOVERNMENT OF THE REPUBLIC OF PARAGUAY AND THE
UNITED STATES OF AMERICA FOR SMALL FARMER DEVELOPMENT

Dated: 30 June 1975

A.I.D. Loan No. 526-T-027

LOAN AGREEMENT dated 30 June 1975, between the GOVERNMENT OF THE REPUBLIC OF PARAGUAY ("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 Borrower in furtherance of the Alliance for Progress and pursuant to section 103 of the Foreign Assistance Act of 1961, as amended, an amount not to exceed four million seven hundred thousand United States dollars (\$4,700,000) ("Loan") to assist Borrower in carrying out the project referred to in section 1.02 ("Project"). The Loan shall be used exclusively to finance foreign exchange costs of goods and services required for the Project ("Dollar Costs") and local currency costs of goods and services required for the Project ("Local Currency Costs"). The aggregate amount of disbursements under the Loan is hereinafter referred to as "Principal".

Section 1.02. THE PROJECT. The Loan will finance an essential part of an integrated program to provide credit, technical assistance and marketing services to small-scale Paraguayan farmers. Specifically the Loan will: (i) finance facilities in the amount of \$1,200,000 required by the Unión Paraguaya de Cooperativas ("UNIPACO") to market crops of the small farmers and to provide them with farm inputs; such facilities are described in annex I; (ii) provide credit in the amount of \$3,000,000 to Paraguayan small farmers through the Central Cooperativa Nacional de Ahorro y Crédito (CREDICOOP) and (iii) provide working capital for UNIPACO in the amount of \$500,000.

The total Project will consist of two other elements: (i) technical assistance to UNIPACO and CREDICOOP to strengthen these institutions and their cooperatives organizationally; this element will be financed by an A.I.D. grant project; and (ii) technical assistance to the small farmer to provide him with new farming technology and to introduce him to the grading and classifying of his production. This element will be financed by the Ministry of Agriculture, the credit unions and UNIPACO.

The Project is more fully described in annex I attached hereto. Said annex may be modified in writing by mutual agreement of the Parties. The goods and services to be financed under the Loan shall be listed in the implementation letters referred to in section 9.03 ("Implementation Letters").

Article II. LOAN TERMS

Section 2.01. INTEREST. Borrower shall pay to A.I.D. interest which shall accrue at the rate of two percent (2%) per annum for ten (10) years following the

¹ Came into force on 30 June 1975 by signature.

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.

Section 2.02. REPAYMENT. 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 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 specify in writing, all such payments shall be made to the Agency for International Development, Cashier (BER/FM), Washington, D.C. 20523, United States of America. Payment shall be deemed made when received.

Section 2.04. PREPAYMENT. Upon payment of all interest and refunds then due, Borrower may prepay, without penalty, all or any part of the Principal. Any such prepayment shall be applied to the installments of Principal in the inverse order of their maturity.

Section 2.05. RENEGOTIATION OF THE TERMS OF THE LOAN. In light of the undertakings of the United States of America and the other signatories of the Act of Bogotá* and the Charter of Punta del Este** to forge an Alliance for Progress, the Borrower agrees to negotiate with A.I.D., at such time or times as A.I.D. may request, an acceleration of the repayment of the Loan in the event that there is any significant improvement in the internal and external economic and financial position and prospects of Paraguay, taking into consideration the relative capital requirements of Paraguay and of the various 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. Prior to the first disbursement or to the issuance of the first Letter of Commitment under the Loan, 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 of the Attorney General of Paraguay, or other counsel satisfactory to A.I.D. that this Agreement has been duly authorized and/or ratified and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;
- (b) a statement of the names of the persons holding or acting in the office of Borrower specified in section 9.02, and a specimen signature of each person specified in such statement.

* *Department of State Bulletin*, Oct. 3, 1960, p. 537.

** *Department of State Bulletin*, Sept. 11, 1961, p. 462 (footnotes added by the Department of State).

Section 3.02. CONDITION PRECEDENT TO DISBURSEMENT FOR ENGINEERING SERVICES AND RELATED PROCUREMENT. Prior to the first disbursement or the issuance of any commitment documents under the Loan to finance engineering services and related procurement, Borrower shall submit in writing to A.I.D. satisfactory evidence of contracts for the final design and location study of the UNIPACO facilities and related infrastructure to be financed under the Loan.

Section 3.03. CONDITION PRECEDENT TO DISBURSEMENT FOR OTHER THAN ENGINEERING SERVICES AND RELATED PROCUREMENT. Prior to any disbursement or the issuance of any commitment documents under the Loan, other than for engineering services and related procurement, Borrower shall submit to A.I.D., in form and substance satisfactory to A.I.D.:

- (a) an executed agreement providing for the National Development Bank to act as Borrower's agent for this Loan;
- (b) executed written agreements between Borrower and CREDICOOP and Borrower and UNIPACO setting forth the terms and conditions under which Loan funds are to be lent by the Borrower to UNIPACO and CREDICOOP, including provisions that A.I.D. funds and the roll-over thereof shall be limited to the production and marketing of commodities eligible for A.I.D. financing (see annex I);
- (c) executed agreements between Borrower and UNIPACO and Borrower and CREDICOOP setting forth the capitalization requirements established under the agreements and the policy designed to implement said requirements;
- (d) except as A.I.D. may otherwise agree in writing, executed agreements between Borrower and UNIPACO and Borrower and CREDICOOP setting forth their mutual goals and purposes, the policies designed to implement the same, and verifiable performance indicators designed with particular emphasis upon the implementation of the policies designed to reach farmers with land holdings of less than twenty (20) hectares with special emphasis on farmers with less than five (5) hectares;
- (e) an executed agreement between Borrower and CREDICOOP setting forth limitations on the financing of annual crops to a fixed percentage of the expected value of the harvested crop with said percentage to be approved by A.I.D. in writing prior to commencement of lending operations for each crop year during the first five years after initial disbursement under the Loan;
- (f) an executed agreement between Borrower and UNIPACO providing that prior to disbursement of funds for construction of any facilities UNIPACO will provide to the National Development Bank (NDB) and to A.I.D. final design and location studies satisfactory to A.I.D. for each facility to be constructed;
- (g) except as A.I.D. may otherwise agree in writing an executed agreement between Borrower and UNIPACO providing that UNIPACO shall establish a reserve fund to provide for increased capitalization, which UNIPACO shall augment annually by the GUARANI equivalent of either \$100,000 or twenty percent (20 %) of the disbursed amount of the \$500,000 allocated to the Loan for working capital, whichever is less.

Section 3.04. TERMINAL DATES FOR MEETING CONDITIONS PRECEDENT TO DISBURSEMENT. (a) If the conditions specified in section 3.01 shall not have been met within sixty (60) days after the execution 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 Borrower. Upon giving of such notice, this Agreement and all obligations of the Parties hereunder shall terminate.

(b) If the conditions specified in section 3.02 shall not have been met within sixty (60) days and in section 3.03 within one hundred and twenty (120) days after the execution of this Agreement or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan and/or may terminate this Agreement by giving written notice to the Borrower. In the event of a termination, upon the giving of notice, Borrower shall immediately repay the Principal then outstanding and shall pay any accrued interest and, upon receipt of such payments in full, this Agreement and all obligations of the Parties hereunder shall terminate.

Section 3.05. NOTIFICATION OF MEETING OF CONDITIONS PRECEDENT TO DISBURSEMENT. A.I.D. shall notify the Borrower upon determination by A.I.D. that the conditions precedent to disbursement, specified in sections 3.01, 3.02, and 3.03, have been met.

Article IV. GENERAL COVENANTS AND WARRANTIES

Section 4.01. EXECUTION OF THE PROJECT. (a) Borrower shall carry out the Project with due diligence and efficiency, and in conformity with sound engineering, construction, financial, administrative, planning and management practices. In this connection Borrower shall cause to be employed suitably qualified and experienced consultants and other personnel for the Project.

(b) Borrower shall cause the Project to be carried out in conformity with all of the plans, specifications, contracts, schedules, and other arrangements, and with all modifications therein, approved by A.I.D., pursuant to this Agreement.

Section 4.02. FUNDS AND OTHER RESOURCES TO BE PROVIDED BY BORROWER. Borrower shall provide promptly, as needed, all funds in addition to the Loan, and other resources required for the punctual and effective carrying out of the Project.

Section 4.03. CONTINUING COOPERATION. Borrower and A.I.D. shall cooperate fully to assure that the purpose of the Loan will be accomplished. To this end, 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 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. Without limitation upon the foregoing, Borrower and A.I.D. will carry out an annual review of the Project during the period of disbursement under the Loan.

Section 4.04. MANAGEMENT. The Borrower shall cause to be provided qualified and experienced management, acceptable to A.I.D. for the Project, and it shall cause such staff to be trained as may be appropriate for carrying out the Project.

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 Paraguay. To the extent that (a) any contractor, including any consulting firm, any personnel of such contractor financed hereunder, and any property or transactions relating to such contracts, financed hereunder, and (b) any commodity procurement transaction financed hereunder are not exempt from identifiable taxes, tariffs, duties, and other levies imposed under laws in effect in Paraguay. 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 under the Loan.

Section 4.06. UTILIZATION 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 times as goods financed under the Loan can no longer be usefully employed for the Project, 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 4.07. DISCLOSURE OF MATERIAL FACTS AND CIRCUMSTANCES. 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 Project and the discharge of its obligations under this Agreement. Borrower shall promptly inform A.I.D. of any facts and circumstances that may hereafter arise that might materially affect the Project or the discharge of Borrower's obligations under this Agreement.

Section 4.08. COMMISSIONS, FEES, AND OTHER PAYMENTS. (a) 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 its 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 fulltime officers and employees or as compensations for bona fide professional, technical, or comparable services. 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 it is a party or of which it has 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) Borrower warrants and covenants that no payments have been or will be received by Borrower, or any official of Borrower in connection with the procurement of goods and services financed hereunder, except fees, taxes, or similar payments legally established in Paraguay.

Section 4.09. MAINTENANCE AND AUDIT OF RECORDS. 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) the receipt and use made of goods and services acquired with funds disbursed pursuant to this Agreement;
- (b) the nature and extent of solicitation of prospective suppliers of goods and services acquired;
- (c) the basis of the award of contracts and orders to successful bidders; and
- (d) the progress of the Project.

Such books and records shall be regularly audited, in accordance with sound auditing standards, for such period and at such intervals 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 4.10. REPORTS. Borrower agrees to furnish to A.I.D. such information and reports relating to the Loan and to the Project as A.I.D. may reasonably request, including a report on Project progress to be furnished at least on a quarterly basis during the period of disbursement under the Loan.

Section 4.11. INSPECTIONS. The authorized representatives of A.I.D. shall have the right at all reasonable times to inspect the Project, the utilization of all goods and services financed under the Loan, and Borrower's books, records, and other documents relating to the Project and the Loan. Borrower shall cooperate with A.I.D. to facilitate such inspections and shall permit representatives of A.I.D. to visit any part of Paraguay for any purpose relating to the Loan.

Article V. SPECIAL COVENANTS AND WARRANTIES

Section 5.01. Without limitation with respect to obligations otherwise incurred under this Agreement, Borrower hereby specifically covenants and warrants:

- (i) to subordinate its claims to UNIPACO's assets so that UNIPACO can pledge them to obtain additional working capital;
- (ii) not to require mortgages on real property for subloans made to CREDICOOP that are secured with crop liens, personal property liens, and cosigners sufficient to guarantee said subloans;
- (iii) that, except as A.I.D. may otherwise agree in writing, Borrower shall make disbursements to CREDICOOP based upon annual investment plans prepared by CREDICOOP and approved by the National Development Bank and will permit CREDICOOP to relend Loan repayments without Borrower's approval; except that rollover funds from the Loan will not be used for financing production of commodities ineligible for A.I.D. financing, and Borrower shall reserve the right to perform regular audits of CREDICOOP to insure that funds are being administered properly;
- (iv) that, except as A.I.D. may otherwise agree in writing, Borrower shall assure that UNIPACO has first priority to borrow for working capital purposes any funds that CREDICOOP might have on deposit in an interest-bearing account at the National Development Bank with said funds also being available when needed by CREDICOOP;
- (v) that, except as A.I.D. may otherwise agree in writing, Borrower shall provide the services of agricultural extension personnel required to provide adequate technical assistance to farmer-members of CREDICOOP credit unions;
- (vi) that, except as A.I.D. may otherwise agree in writing, Borrower shall to the best of its ability provide agricultural production credit through CREDICOOP at its most favorable rate of interest for credit requirements of farm borrowers for commodities not eligible for A.I.D. financing to CREDICOOP-affiliated rural credit unions;
- (vii) except as A.I.D. may otherwise agree in writing, Borrower shall not request disbursement from A.I.D. until it has approved specific disbursement requests from UNIPACO or CREDICOOP and upon receipt of funds from A.I.D., Borrower shall disburse, or cause to be disbursed, such funds to UNIPACO or CREDICOOP within fifteen (15) days of their receipt by Borrower.

Article VI. PROCUREMENT

Section 6.01. SELECTED FREE WORLDWIDE PROCUREMENT. Except as A.I.D. may otherwise agree in writing and except as provided in subsection 6.08 (c) with respect to marine insurance, disbursements made pursuant to section 7.01 shall be used exclusively to finance procurement for the Project of goods and services having their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book in effect at the time 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 in effect at the time of shipment.

Section 6.02. PROCUREMENT FROM PARAGUAY. Disbursement made pursuant to section 7.02 shall be used exclusively to finance procurement for the Project of goods and services having both their source and origin in Paraguay.

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. GOODS AND SERVICES NOT FINANCED UNDER 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 6.05. IMPLEMENTATION OF PROCUREMENT REQUIREMENTS. The definitions applicable to the eligibility requirements of sections 6.01, 6.02 and 6.04 will be set forth in detail in Implementation Letters.

Section 6.06. PLANS, SPECIFICATIONS AND CONTRACTS. (a) Except as A.I.D. may otherwise agree in writing, Borrower shall furnish to A.I.D. promptly upon preparation, all plans, specifications, schedules, bid documents and contracts or other arrangements relating to the Project, and any modifications therein, whether or not the goods and services to which they relate are financed under the Loan.

(b) Except as A.I.D. may otherwise agree in writing, all plans, specifications and schedules furnished pursuant to subsection (a) above shall be approved by A.I.D. in writing.

(c) Except as A.I.D. may otherwise specify, all bid documents and documents related to the solicitation of proposals relating to goods and services financed under the Loan shall be approved by A.I.D. in writing prior to their issuance. Such documents shall be in terms of United States standards and measurements, except as A.I.D. may otherwise agree in writing.

(d) Except as A.I.D. may otherwise agree in writing, the following contracts financed under the Loan shall be approved by A.I.D. in writing prior to their execution:

- (i) contracts for engineering, consultant and other professional services;
- (ii) contracts for such other services as A.I.D. may specify; and
- (iii) contracts for such equipment and material as A.I.D. may specify.

In the case of contracts for services, A.I.D. shall also approve in writing the contractor and such contractor personnel as A.I.D. may specify. Material modifications in any of such contracts and changes in any of such personnel shall also be approved by A.I.D. in writing prior to their becoming effective.

(e) Consulting firms or other technical assistance used by Borrower for the Project, but not financed under the Loan, as well as the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, shall be subject to the written approval of A.I.D.

Section 6.07. REASONABLE PRICES. No more than reasonable prices shall be paid for any goods or services financed in whole or in part under the Loan, as more fully described in Implementation Letters. Such items shall be procured on a fair and, except for professional services, on a competitive basis in accordance with procedures therefor prescribed in Implementation Letters.

Section 6.08. SHIPPING AND INSURANCE. (a) Selected free world goods financed under the Loan shall be transported to Paraguay 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.

(b) At least fifty percent (50 %) of the gross tonnage of all selected free world goods financed under the Loan (computed separately for dry bulk carriers, dry cargo liners, and tankers) which shall be transported on ocean going vessels shall be transported on privately owned United States-flag commercial vessels unless A.I.D. shall determine that such vessels are not available at fair and reasonable rates for United States-flag commercial vessels. In addition, at least fifty percent (50 %) of the gross freight revenue generated by all shipments financed under the Loan and transported on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels, unless A.I.D. shall determine that such vessels are not available at fair and reasonable rates for United States-flag commercial vessels. No such goods may be transported on any ocean vessel or aircraft (i) which A.I.D., in a notice to 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.

(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 Paraguay 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, Paraguay, 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 conduct a marine insurance business in any state of the United States of America.

(d) 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 Borrower under such insurance shall be used to replace or repair any material damage or any loss of goods insured or shall be used to reimburse 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 con-

tracts 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 goods and services to be financed under the Loan, Borrower agrees to furnish to A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Implementation Letters.

Section 6.10. UNITED STATES GOVERNMENT-OWNED EXCESS PROPERTY. Borrower will utilize, with respect to goods financed under the Loan to which Borrower takes title at the time of procurement, such reconditioned United States Government-owned excess property as may be consistent with the requirements of the Project and as may be available within a reasonable period of time. Borrower shall seek assistance from A.I.D. and A.I.D. will assist Borrower in ascertaining the availability of and in obtaining such excess property. A.I.D. will make arrangements for any necessary inspection of such property by Borrower or its representative. Costs of inspection and of acquisition, and all charges incident to the transfer to Borrower of such excess property, may be financed under the Loan. Prior to procurement of any goods, other than excess property, financed under the Loan and after having sought such A.I.D. assistance, Borrower shall indicate to A.I.D. in writing, on the basis of information then available to it, either that such goods cannot be made available from reconditioned United States Government-owned excess property on a timely basis or that the goods that can be made available are not technically suitable for use in the Project.

Section 6.11. INFORMATION AND MARKING. Borrower shall give publicity to the Loan and the Project as a program of United States aid in furtherance of the Alliance for Progress and mark goods financed under the Loan, as prescribed in Implementation Letters.

Article VII. DISBURSEMENTS

Section 7.01. DISBURSEMENTS FOR UNITED STATES DOLLAR COSTS — LETTERS OF COMMITMENT TO UNITED STATES BANKS. Upon satisfaction of conditions precedent, 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 Letters of Credit or otherwise, for dollar costs of goods and services 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 Borrower and may be financed under the Loan.

Section 7.02. DISBURSEMENT FOR LOCAL CURRENCY COSTS. Upon satisfaction of conditions precedent, Borrower may, from time to time, request disbursement by A.I.D. of local currency for local currency costs of goods and services procured for the Project in accordance with the terms and conditions of this Agreement by submitting to A.I.D. such supporting documentation as A.I.D. may prescribe in Implementation Letters. A.I.D. shall make such disbursements from local currency of Paraguay owned by the United States Government and obtained by A.I.D. with United States dollars. The United States dollar amount of the Loan disbursed under this section will be the United States dollar equivalent of local currency disburse-

ments determined at the rate of exchange established by the Government of Paraguay for official transactions as of the date of each respective disbursement as defined in section 7.04 (b).

Section 7.03. OTHER FORMS OF DISBURSEMENT. Disbursements of the Loan may also be made through such other means as Borrower and A.I.D. may agree to in writing.

Section 7.04. PROCEDURE FOR AND DATE OF DISBURSEMENT. Disbursements by A.I.D. shall be deemed to occur (a) in the case of disbursements, pursuant to section 7.01 on the date on which A.I.D. makes a disbursement to Borrower, to its designee, or to a banking institution pursuant to a Letter of Commitment, and (b) in the case of disbursements pursuant to section 7.02, on the date on which A.I.D. disburses the local currency to Borrower or its designee.

Section 7.05. TERMINAL DATE FOR DISBURSEMENT. Except as A.I.D. may otherwise agree in writing, no Letter of Commitment, or other commitment document 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. forty-two months after date of this Agreement and no disbursement shall be made against documentation received by A.I.D. or any bank described in section 7.01 after forty-eight months from the date of this Agreement. 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 BORROWER. Borrower may, with the prior written consent of 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 Letters of Credit.

Section 8.02. EVENTS OF DEFAULT; ACCELERATION. If any one or more of the following events ("Events of Default") shall occur:

- (a) Borrower shall have failed to pay when due any interest or installment of Principal required under this Agreement,
- (b) 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, and
- (c) 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 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 unpaid Principal shall be due and payable sixty (60) days thereafter, and, unless the Event of Default is remedied to the satisfaction of A.I.D. within such sixty days:

- (i) such unpaid Principal and any accrued interest hereunder shall be due and payable immediately; and
- (ii) the amount of any further disbursements made under 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 Borrower will be able to perform its obligations under this Agreement, or
- (c) any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.,

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 or through bank payments made other than under irrevocable Letters of Credit, in which event A.I.D. shall give notice to the Borrower promptly thereafter;
- (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 Paraguay, are in a deliverable state, and have not been offloaded in ports of entry for Paraguay. 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 disbursement 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 then due and any accrued interest hereunder.

Section 8.06. REFUNDS. (a) In the case of any disbursement from funds received under this Agreement not supported by valid documentation in accordance with the terms of this Agreement, or of any such 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 Borrower to refund to A.I.D. such amount in United States dollars or local currency as specified by A.I.D. within thirty (30) days after receipt of a request thereof. 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 installments of Principal in the inverse order of their maturity thereby effecting a reduction of the amount of the loan by the amount of such remainder. Notwithstanding any other provision of this Agreement, A.I.D.'s right to require a refund with respect to any disbursement under the Loan shall continue for five (5) 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 installments of Principal in the in-

verse order of their maturity thereby effecting a reduction of the amount of the Loan 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 the occurrence of any of the events specified in section 8.02 may be charged to Borrower and shall be reimbursed to A.I.D. by the Borrower in such manner as A.I.D. may specify.

Section 8.08. NONWAIVER OF REMEDIES. No reasonable 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 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 to which it is addressed when it shall be delivered to such Party by hand or mail, telegram, cable, or radiogram at the following address:

To Borrower:

For Loan servicing:

Mail address:

Ministry of Finance
Asunción, Paraguay

Cable address:

MINHACIENDA
Asunción, Paraguay

For Project implementation:

Matters pertaining to MAG:

Mail address:

Ministry of Agriculture (MAG)
Asunción, Paraguay

Cable address:

MINAGRICULTURA
Asunción, Paraguay

Matters pertaining to NDB:

Mail address:

National Development Bank
Asunción, Paraguay

Cable address:

PYTIBO
Asunción, Paraguay

To A.I.D.:

Mail address:

USAID Mission to Paraguay
Asunción, Paraguay

Cable address:

USAID/Paraguay
Asunción, Paraguay

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, Borrower will be represented by the individual holding or acting in the office of Minister of Finance and A.I.D. will be represented by the individual holding or acting in the office of Director, USAID Mission to Paraguay. Such individuals shall have the 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 a 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 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 duly authorized.

Section 9.03. IMPLEMENTATION LETTERS. A.I.D. shall from time to time issue Implementation Letters that will prescribe procedures applicable hereunder in connection with the implementation of this Agreement.

Section 9.04. PROMISSORY NOTES. At such time or times as A.I.D. may request, Borrower shall issue promissory notes or such other evidence 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. TERMINATION UPON FULL PAYMENT. Upon repayment in full of Principal and payment of all accrued interest, this Agreement and all obligations of Borrower and A.I.D. thereunder shall terminate.

Section 9.06. DIFFERENCE IN MEANING. The English language version of this Agreement shall be used to resolve differences in meaning between the English version and the Spanish version.

IN WITNESS WHEREOF Borrower and the United States of America, each acting through its respective duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of 30 June 1975.

For the Government
of the Republic of Paraguay:

[Signed]

CÉSAR BARRIENTOS
Minister of Finance

[Signed]

HERNANDO BERTONI
Minister of Agriculture

For the Government
of the United States of America:

[Signed]

GEORGE W. LANDAU
Ambassador

[Signed]

OLIVER L. SAUSE
Director, USAID
Mission to Paraguay

ANNEX I

THE PROJECT

A. OVERVIEW

The goal of the Project is to increase the productivity and income of Paraguayan farmers who cultivate less than 20 hectares of land. The operations of CREDICOOP and UNIPACO are complementary and support this overall goal. Although these two beneficiaries of the Loan to the Borrower will continue to require some grant assistance during the implementation phase of the Project, the financial benefits derived from this Loan should permit phasing out the grants over a four-year period.

Credit unions will be established in 40 rural population concentrations of 10,000 and above, therefore, they eventually could serve all the small farmers located in a rural population of 400,000 even though the credit unions will only be serving an estimated 13,500 farmers and 4,500 other rural dwellers by the end of the Project in 1979. In addition, as these credit unions mature, they plan to open branch offices in rural concentrations of as few as 3,000 people.

By the end of the Project, UNIPACO plans to have 12,000 members and the capacity to service 20,000 small farmers. Since UNIPACO earns money on each unit of farm produce or farm input handled, providing service to groups which are not yet members does not upset its profit picture. For this reason, UNIPACO was able to market crops profitably for about 6,000 small farmers in 1973, even though its membership was about 2,000. Since in the future UNIPACO will pay patronage refunds to members only, there will be an incentive for farmers to join a marketing cooperative as soon as one is serving their vicinity.

As mentioned above, the Loan will finance an essential part of an integrated program to provide credit, technical assistance and marketing services to small-scale Paraguayan farmers. The total program consists of five elements: (a) technical assistance to UNIPACO and CREDICOOP to strengthen these two young institutions and their member cooperatives organizationally; (b) technical assistance to the small farmer to provide him with new farming technology and to introduce him to grading and classifying of his production; (c) facilities required by UNIPACO to market crops of the small farmers and to provide them with farm inputs; (d) credit; and (e) working capital for UNIPACO. The first element will be financed by an A.I.D. grant project, (b) will be financed jointly by the Ministry of Agriculture (MAG), CREDICOOP, UNIPACO and their cooperatives, and elements (c), (d) and (e) will be financed by the Loan.

B. INSTITUTION BUILDING

The purpose of this Project is to further develop, strengthen and institutionalize two national-level cooperative centrals which deliver services to Paraguayan small farmers. CREDICOOP, a credit union central, and UNIPACO, a marketing cooperative central, are both relatively new and will use A.I.D. Loan funds to improve their financial base so they can multiply the number of cooperatives available to the small farmer. To assist UNIPACO and CREDICOOP [to] improve their financial base, the Borrower through a trust fund arrangement with the National Development Bank (NDB) will make available the funds to them at the same interest rates received by the Borrower. The repayment provisions will differ somewhat for UNIPACO as noted below.

Each cooperative central will be responsible individually for repaying its principal and interest to the Borrower. CREDICOOP will repay its loan to the Borrower in 40 years in accordance with the lender's amortization schedule which will include a ten-year grace period on repayment of the principal. UNIPACO, on the other hand, will repay its loan over a 20-year period in accordance with an amortization schedule to be developed by the Borrower which will include a five-year grace period on repayment of the principal. The resulting difference in funds will be available to the Borrower to finance eligible loans made to the agriculture sector.

The establishment of the credit union movement in Paraguay has enabled the Borrower to serve small farmers effectively. The procedure used to pass credit to small farmers begins with CREDICOOP assisting the credit unions to prepare an annual investment plan for each farmer. These plans, in turn, are aggregated into what has been termed the credit union's annual "global investment plan." CREDICOOP presents to the NDB for its approval a global investment plan for each credit union. The NDB disburses funds directly to the credit union in accordance with the plan once it has been approved.

The procedure used to pass Loan disbursements to small farmers will be similar. The credit unions will continue to prepare global investment plans and present them to CREDICOOP. However, these plans will not be presented separately to the NDB. Rather, CREDICOOP will merge them into one blanket credit request for all the credit unions before submitting it to the NDB. The NDB will review credit requests and will approve Loan disbursements only for financially sound projects containing only crops eligible for A.I.D. financing. Then the NDB, after approving the request, will make Loan disbursements to CREDICOOP and CREDICOOP will be responsible for making subloans to the credit unions. CREDICOOP will make available the money to the credit unions directly, through the branch offices of the NDB, or in the form of physical inputs, whichever is most appropriate.

CREDICOOP, with this Loan and the technical assistance provided by A.I.D. and the Borrower, is to become a financial institution specializing in lending to small farmers. To achieve this objective it must begin making the final decisions regarding the loans it awards. Therefore, a different lending procedure, one that increases CREDICOOP's responsibility, will be employed with respect to the use of subloan repayments. CREDICOOP will be allowed to relend the repayments for subloans financed hereunder without the approval of the NDB; however, NDB approval is required for subloans financed with Loan disbursements. Nevertheless, subloans financed with these repayments will be analyzed by consultants who will be made available to CREDICOOP during the disbursement period of the Loan. In addition, the Borrower will have the right to perform regular audits of CREDICOOP to insure that these funds are being administered properly and are not financing crops ineligible for A.I.D. financing. Such ineligible crops are two nonfood commodities in world surplus, cotton and tobacco.

The Loan proceeds for UNIPACO will be used to finance working capital and to purchase facilities that are strategic to its operations. These will include a grain elevator, a storage complex, a grain exporting facility (river barge loading unit) and a feed mill. UNIPACO needs these facilities, currently rented from competitors, to carry out its business. Two types of costs will be financed with UNIPACO's funds for purchasing facilities: costs of a final design and location study for the facilities, and the costs of the facilities. UNIPACO will be allowed \$500,000 of the Loan to assist in financing its short-term working capital requirements for the marketing of commodities eligible for A.I.D. financing.

The Loan disbursements to UNIPACO will be made upon the presentation of documentation to be agreed upon at a later date by the NDB and A.I.D.

C. FINANCIAL PLAN

TOTAL PROJECT FUNDS (CY 1975-1979)

| | |
|--|--------------------------|
| <hr/> | |
| (1) <i>A.I.D. Loan</i> | |
| <i>a. Credit, CREDICOOP</i> | \$3,000,000 |
| <i>b. Working capital, UNIPACO</i> | 500,000 |
| <i>c. Facilities, UNIPACO</i> | 1,200,000 |
| | <hr/> |
| | \$4,700,000 |
| (2) <i>A.I.D. Grant UNIPACO</i> | |
| <i>a. Contract advisors</i> | \$284,500 |
| <i>b. Participant training</i> | 12,000 |
| <i>c. Commodities</i> | 100,000 |
| <i>d. Other (including budget support)</i> | 146,000 |
| | <hr/> |
| | \$542,500 |
| (3) <i>A.I.D. Grant CREDICOOP</i> | |
| <i>a. Contract advisors</i> | \$298,000 |
| <i>b. Participant training</i> | 42,000 |
| <i>c. Commodities</i> | 61,000 |
| <i>d. Other (including budget support)</i> | 287,000 |
| | <hr/> |
| | \$688,000 |
| | <hr/> |
| | TOTAL A.I.D. \$5,930,500 |
| (4) <i>GOP contribution</i> | |
| <i>a. Extension services</i> | \$214,500 |
| <i>b. Co-op promotion</i> | 4,000 |
| <i>c. Credit advisor</i> | 12,600 |
| <i>d. NDB lendings</i> | 2,274,400 |
| <i>e. NDB admin. costs</i> | 94,000 |
| <i>f. Budget support</i> | 40,000 |
| | <hr/> |
| | \$2,639,500 |
| (5) <i>CREDICOOP system</i> | |
| A. CREDICOOP | |
| 1. Operating expenses | \$243,900 |
| 2. Undistributed profits | 17,000 |
| B. Credit unions (rural) | |
| 1. Member savings | 1,325,900 |
| 2. Operating expenses | 504,000 |
| | <hr/> |
| | \$2,090,800 |
| (6) <i>UNIPACO system</i> | |
| A. UNIPACO | |
| 1. Net undistributed profit | \$580,900 |
| 2. Operating expenses | 1,422,600 |
| B. UNIPACO member co-ops (operating costs) | 340,000 |
| | <hr/> |
| | \$2,343,500 |
| <hr/> | |

ALLIANCE FOR PROGRESS AMENDMENT¹ TO LOAN AGREEMENT² BETWEEN THE GOVERNMENT OF THE REPUBLIC OF PARAGUAY AND THE UNITED STATES OF AMERICA FOR SMALL FARMER DEVELOPMENT

Dated: 7 December 1976

A.I.D. Loan No. 526-T-027

WHEREAS, a Loan Agreement dated June 30, 1975,² was entered into between the Government of the Republic of Paraguay ("Borrower") and the United States of America, acting through the Agency for International Development ("A.I.D.");

WHEREAS, it is provided in said Loan Agreement that a part of the Loan may be cancelled under circumstances described therein upon agreement of the Parties or if it becomes improbable that an objective of the Loan can be attained (see sections 8.01 and 8.03); and

WHEREAS, the Borrower and A.I.D. wish to reduce the amount of the Loan and, in view of said reduction, effect certain changes in the Project being financed thereunder;

The Parties hereby amend and modify said Loan Agreement as follows:

1. Article I is amended as follows:

a. Section 1.01 is modified by deleting therefrom the words and figures "four million seven hundred thousand United States dollars (\$4,700,000)" and inserting in their place the words and figures "three million United States dollars (\$3,000,000)".

b. Section 1.02 is deleted in its entirety and the following inserted in its place:

"Section 1.02. THE PROJECT. The Loan will finance an essential part of an integrated program to provide credit, technical assistance and marketing services to small-scale Paraguayan farmers. Specifically the Loan will provide credit resources in the amount of \$3,000,000 to Paraguayan small farmers through the Central Cooperativa Nacional de Ahorro y Crédito ("CREDICOOP").

"The total Project will consist of two other elements: (i) technical assistance to CREDICOOP to strengthen this institution and its cooperatives organizationally. This element will be financed by an A.I.D. grant project; and (ii) technical assistance to the small farmer to provide him with new farming technology and to introduce him to the grading and classifying of his production. This element will be financed by the Ministry of Agriculture and the credit unions.

"The Project is more fully described in 'Annex I—Modified' attached hereto. Said annex may be modified in writing by mutual agreement of the Parties."

2. Article III is amended as follows:

a. Section 3.02 is deleted in its entirety and the following inserted in its place:

"Section 3.02. CONDITIONS PRECEDENT TO DISBURSEMENTS FOR CREDIT PROGRAM. Prior to any disbursement or the issuance of any commitment docu-

¹ Came into force on 7 December 1976 by signature.

² See p. 270 of this volume.

ments for credit under the Loan, Borrower shall submit to A.I.D., or cause to be submitted to A.I.D., in form and substance satisfactory to A.I.D.:

- “(a) a signed agreement providing for the National Development Bank to act as Borrower’s agent for the Loan;
- “(b) a signed agreement (or agreements) between the Borrower and CREDICOOP setting forth the terms and conditions under which Loan funds are to be relented to CREDICOOP, including provisions that:
 - “(i) relate to interest, repayment and other basic terms;
 - “(ii) CREDICOOP will undertake a management upgrading program and offer qualified credit union managers to member cooperatives on a contract basis;
 - “(iii) CREDICOOP will lend only to credit unions having full-time, qualified managers;
 - “(iv) CREDICOOP will participate in a joint annual evaluation of the Project by the Borrower, CREDICOOP and A.I.D.;
 - “(v) CREDICOOP, starting twelve months after the first disbursement to it of Loan funds, will make no loan of such funds to any cooperative having more than the equivalent of \$30,000 in total assets unless such cooperative has been audited within twelve months before such loan;
 - “(vi) Loan funds and funds relented from the repayments thereof (continuing roll-overs) shall be limited to the production and marketing of commodities eligible for A.I.D. financing (see ‘Annex I—Modified’);
 - “(vii) CREDICOOP shall meet stated capitalization requirements and implement stated policies designed to attain said requirements;
 - “(viii) describe Borrower’s and CREDICOOP’s mutual goals and purposes, the policies designed to implement them, and verifiable performance indicators designed with particular emphasis upon the implementation of the policies designed to reach farmers with land holdings of less than twenty (20) hectares with special emphasis on farmers with less than five (5) hectares;
 - “(ix) set forth limitations on the financing of annual crops to a fixed percentage of expected value of the harvested crop with said percentage to be approved by A.I.D. in writing prior to commencement of lending operations for each crop year during the first five years after initial disbursement under the Loan; and
 - “(x) require CREDICOOP to require all borrowing cooperatives and employees thereof having access to funds of any such cooperatives to be covered by adequate fidelity bonding if available;
- “(c) a marketing services plan demonstrating that CREDICOOP possesses adequate financial and management resources to carry out marketing services necessary to the Project;
- “(d) a management upgrading plan under which CREDICOOP will meet its obligations under the Borrower-CREDICOOP agreement described in subsection (b) above;
- “(e) a project evaluation plan (prepared in cooperation with A.I.D.) including evaluation criteria and financial development goals for CREDICOOP.”

b. Section 3.03 is deleted in its entirety and the following inserted in its place:

“Section 3.03. CONDITION PRECEDENT TO FURTHER DISBURSEMENT AFTER EACH TWELVE-MONTH PERIOD. Except as A.I.D. may agree in writing, no disbursement shall be made following each anniversary date of the first disbursement of the Loan unless the joint evaluation of the Project held each year demonstrates progress, satisfactory to A.I.D., in attainment of CREDICOOP’s financial development goals.”

c. Section 3.04, subsection (b), is modified by deleting therefrom the words “within sixty (60) days and in section 3.03 within one hundred and twenty (120) days after the execution of this Agreement”, and inserting in their place the words, “by August 25, 1976”.

3. Article V is amended as follows:

a. Section 5.01 is deleted in its entirety and the following inserted in its place:

“Section 5.01. ENFORCEMENT OF CREDICOOP AGREEMENTS. Borrower hereby specifically covenants and warrants that it will abide by and enforce the contractual obligations entered into with CREDICOOP in compliance with section 3.02 of this Loan Agreement”.

b. A new section is added as follows:

“Section 5.02. ANNUAL EVALUATIONS. Borrower covenants and warrants that it will participate with CREDICOOP and A.I.D. in an annual evaluation of the Project.”

c. A new section is added as follows:

“Section 5.03. IMPLEMENTATION COVENANTS. Borrower covenants and warrants that it will:

- “(a) not require mortgages on real property for subloans made to CREDICOOP that are secured with crop liens, personal property liens, or cosigners sufficient to guarantee said subloans;*
- “(b) make disbursements to CREDICOOP based upon annual investment plans prepared by CREDICOOP and approved by the National Development Bank and will permit CREDICOOP to relend loan repayments without Borrower’s approval, provided, however, that Loan funds relent (roll-over funds) will not be used for financing production of commodities ineligible for A.I.D. financing and that the Borrower shall reserve the right to perform regular audits of CREDICOOP to insure that funds are being administered properly;*
- “(c) assure that any funds on deposit by CREDICOOP at the National Development Bank shall bear interest and be available when needed by CREDICOOP;*
- “(d) provide services of agricultural extension personnel required to provide adequate technical assistance to farmer-members of CREDICOOP credit unions;*
- “(e) to the best of Borrower’s ability provide agricultural production credit through CREDICOOP at its most favorable rate of interest for credit requirements of farmer borrowers for commodities not eligible for A.I.D. financing, to CREDICOOP-affiliated rural credit unions; and*
- “(f) not request disbursement from A.I.D. until it has approved specific disbursement requests from CREDICOOP and upon receipt of funds from*

A.I.D., Borrower shall disburse, or cause to be disbursed, such funds to CREDICOOP within fifteen (15) days of their receipt by Borrower”.

4. “Annex I” attached to the Loan Agreement is hereby modified as provided in “Annex I—Modified” attached hereto and incorporated herein by this reference.

Except as expressly amended or modified hereby all provisions of the Loan Agreement as originally signed remain in full force and effect.

IN WITNESS WHEREOF Borrower and the United States of America, each acting through its respective duly authorized representatives, have caused this Amendment to Loan Agreement to be signed in their names and delivered as of 7 December 1976.

For the Government
of the Republic of Paraguay:

[Signed]

CÉSAR BARRIENTOS
Minister of Finance

[Signed]

HERNANDO BERTONI
Minister of Agriculture

For the Government
of the United States of America:

[Signed]

GEORGE W. LANDAU
Ambassador

[Signed]

ABE M. PEÑA
Director
USAID/Paraguay

ANNEX I — MODIFIED

THE PROJECT

A. OVERVIEW

The goal of the Project is to increase the productivity and income of Paraguayan farmers who cultivate less than 20 hectares of land. The operations of CREDICOOP support this overall goal. Although CREDICOOP will continue to require some grant assistance during the implementation phase of the Project, the financial benefits derived from this Loan should permit phasing out the grants over a four-year period.

Cooperatives will be established in 38 rural population concentrations of 10,000 and above; therefore, they eventually could serve all the small farmers located in a rural population of 400,000 even though they will only be lending to an estimated 9,000 farmers; total membership of the rural cooperatives will be 19,000 by the end of the Project in 1980. In addition, as these cooperatives mature, they plan to open branch offices in rural concentrations of as few as 3,000 people.

The Loan will finance an essential part of an integrated program to provide credit, technical assistance and marketing services to small-scale Paraguayan farmers. The total program consists of four elements: (a) technical assistance to CREDICOOP to strengthen CREDICOOP and its member cooperatives organizationally; (b) technical assistance to the small farmer to provide him with new farming technology and to introduce him to grading and classifying of his production; (c) credit; (d) marketing; CREDICOOP will market the principal products produced by the small farmer members of its affiliated cooperatives. The first element will be financed by an A.I.D. grant project, “(b)” will be financed jointly by the Ministry of Agriculture (MAG), CREDICOOP and its cooperatives, “(c)” will be financed by the Loan and “(d)” will be financed mainly by CREDICOOP and its cooperatives.

B. INSTITUTION BUILDING

The purpose of this Project is to further develop, strengthen and institutionalize a national level cooperative central, CREDICOOP, which delivers services to Paraguayan small farmers. CREDICOOP, which will provide credit, marketing and other services, is relatively new and will use A.I.D. loan funds to improve its financial base so it can increase its services to cooperatives serving greater numbers of small farmers. To assist CREDICOOP in this effort the Borrower, through a trust fund arrangement with the National Development Bank (NDB), will make funds available on the same terms received by the Borrower.

CREDICOOP will repay its loan to the Borrower in 40 years in accordance with the lender's amortization schedule which will include a ten-year grace period on repayment of the principal.

The establishment of the credit cooperative movement in Paraguay has enabled the Borrower to serve small farmers effectively. The Borrower has been able to reduce the cost of lending to the small farmer by an agreement through which the NDB would make larger loans to the credit cooperatives which would in turn make loans to each individual small farmer. The procedure presently used to pass credit to small farmers begins with CREDICOOP assisting the credit cooperatives to prepare an annual investment plan for each farmer. These plans, in turn, are aggregated into what has been termed the credit cooperatives' annual "global investment plan". CREDICOOP presents to the NDB for its approval a global investment plan for each credit cooperative. The NDB disburses funds directly to the credit cooperatives in accordance with the plan once it has been approved. This procedure will continue to be used for those crops which cannot be financed with A.I.D. funds.

The procedure to be used to pass loan disbursements to small farmers will be similar. The credit cooperatives will continue to prepare global investment plans and present them to CREDICOOP. However, these plans will not be presented separately to the NDB. Rather, CREDICOOP will merge them into one blanket credit request for all the credit cooperatives before submitting it to the NDB. The NDB will review credit requests and will approve loan disbursements only for financially sound projects containing only crops eligible for A.I.D. financing. The NDB, after approving the request, will make loan disbursements to CREDICOOP who will be responsible for making subloans to the credit cooperatives. CREDICOOP will make funds or physical inputs, whichever is appropriate, available to the credit cooperatives directly or through branch offices of the NDB.

CREDICOOP, with this Loan and the technical assistance provided by A.I.D. and the Borrower, is to become a financial institution specializing in lending to and marketing for small farmers. To achieve this objective it must begin making the final decisions regarding the loans it awards and how marketing services will be performed (a marketing plan is required as a condition precedent to disbursement of A.I.D. Loan funds).

Therefore, a different lending procedure, one that increases CREDICOOP's responsibility, will be employed with respect to the use of subloan repayments. CREDICOOP will be allowed to relend the repayments for subloans financed hereunder without the approval of the NDB.

Nevertheless, subloans financed with repayments will be analyzed by A.I.D.-contracted consultants who will be made available to CREDICOOP during the disbursement period of the Loan. The purpose of such analysis shall be to review the soundness of the analysis performed by CREDICOOP and make recommendations for improved analysis when appropriate. In addition, the Borrower and A.I.D. will have the right to perform regular audits of CREDICOOP to insure that these funds are being administered properly and are not financing crops ineligible for A.I.D. financing. Such ineligible crops are two non-food commodities in world surplus, cotton and tobacco.

To further the building of a strong financial institution the Borrower will cause CREDICOOP to do the following:

a. To offer qualified managers on a contract basis to its member cooperatives and to agree to lend only to cooperatives which have full-time, qualified managers. Cooperatives may from time to time require a new manager and will have the opportunity to recruit new personnel keeping in mind that eligibility for borrowing depends upon having a qualified manager. A cooperative can request recruiting assistance from CREDICOOP or contract directly with CREDICOOP for a qualified manager. Managers will be judged to be qualified on the basis of both objective and subjective factors. The term "qualified" must be related to various aspects such as location, size and potential of the cooperative. It is important to keep in mind that one of the goals of the Project is to develop qualified managers and that a manager upgrading program is planned to help accomplish this goal. Nonetheless, on the job experience is expected to be the more effective development tool and use of borrowed funds is an important element in providing complete experience.

A qualified manager would be able to satisfy most of the following objective indicators:

1. prepare financial statements on a monthly basis;
2. prepare loan recuperation reports on a monthly basis;
3. have attended CREDICOOP educational programs available and applicable to managers;
4. prepare annual projections and budgets with a minimum of help;
5. close books on an annual basis with a minimum of outside help;
6. capitalization of the managed cooperative increasing by a minimum of 5% per year;
7. individual share and loan records of the managed cooperative are in balance with General Ledger accounts, or differences if any are of minor nature and stabilized for the past three months;
8. must have high school education.

A qualified manager would also satisfy most of these subjective indicators:

- a)* follows recommendations of CREDICOOP;
- b)* active and effective in recuperation of loans;
- c)* able to make worthwhile loan analysis and recommendations to the credit committee;
- d)* contributes significantly to the Board of Directors' understanding of the operations of the cooperative;
- e)* uses own initiative;
- f)* helps set reasonable growth goals for the cooperative;
- g)* is active in assuring that the necessary technical assistance in agriculture is provided to the small farmers.

In some cases a manager would be "qualified" to manage a loan of, for example, \$10,000 but not "qualified" to manage \$100,000. This will remain a judgment area and be acceptable as part of the normal learning process for CREDICOOP personnel and personnel of the member cooperatives.

b. To agree that starting 12 months after first disbursement no loan will be made to a member cooperative with over \$30,000 assets unless it has been audited within the 12 months preceding such loan.

c. To assure that all borrowing cooperatives and employees are covered by a blanket fidelity bond or an acceptable substitute if such a blanket bond is not available.

d. To present evidence acceptable to A.I.D. that satisfactory progress has been made towards meeting its financial and development goals. (These financial and development goals are, with the cooperation of A.I.D., in the process of being developed and will be completed early on to be used as an on-going or continuous indicator of performance. The goals already established for the agricultural years 1976 through 1980 include among other things the number of cooperatives, membership in the cooperatives, share capital, loans made, percent of loans charged off by CREDICOOP, the number of farmer borrowers, classification of borrowers by

hectares owned and by funds received by each classification, savings of cooperatives in CREDICOOP, operating revenues of CREDICOOP, operating profit and etc.

Loan disbursements 12 months after first disbursement and each 12 months thereafter will be conditional upon an A.I.D. review of such progress.)

e. A joint annual evaluation of the Project will be performed by the Borrower, CREDICOOP and A.I.D. (This evaluation will concern itself with accomplishment of results in meeting output goals and where not met will attempt to explain why not and offer suggestions for better meeting such goals. The results of this evaluation will be available to all three Parties and in the case of conflict in opinion the conflict will be explained and the reasoning behind each point of view included as an integral part of the evaluation report.)

f. CREDICOOP shall submit a marketing plan acceptable to A.I.D. prior to first disbursement, showing that CREDICOOP has adequate financial and management resources to carry out the necessary marketing services.

C. FINANCIAL PLAN

The financial plan, set forth in the following five pages, consists of projections of CREDICOOP operating revenues, operating cost, operating results, balance sheets and cash flow (source of funds, use of funds) projections. All projections are through 1980.

CREDICOOP: PROJECTED BALANCE SHEETS IN US\$

| | 75 Dec. 31 (000) actual | 76 Dec. 31 (000) | 77 Dec. 31 (000) | 78 Dec. 31 (000) | 79 Dec. 31 (000) | 80 Dec. 31 (000) |
|--------------------------------|----------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| <i>Assets</i> | | | | | | |
| Cash in banks | 12 | 41 | 21 | 51 | 56 | 168 |
| Loans receivable | 79 | 500 | 865 | 1,438 | 2,270 | 3,530 |
| Fixed assets less dep | 31 | 47 | 63 | 73 | 85 | 115 |
| Other assets | 2 | 7 | 10 | 20 | 20 | 30 |
| Total assets | 124 | 595 | 959 | 1,582 | 2,431 | 3,843 |
| <i>Liabilities and capital</i> | | | | | | |
| Current liabilities | 10 | 25 | 61 | 55 | 70 | 75 |
| Loans payable | 12 | 460 | 802 | 1,343 | 2,128 | 3,318 |
| Share capital | 22 | 55 | 106 | 185 | 308 | 497 |
| Reserves | 4 | 74 | 76 | 78 | 80 | 82 |
| Donated capital | 72 | 88 | 104 | 114 | 114 | 114 |
| Profit and loss* | 4 | (107) | (190) | (248) | (269) | (243) |
| Total liabilities | 124 | 595 | 959 | 1,582 | 2,431 | 3,843 |

* Shown to reflect situation without USAID contributions for operating expenses. Since the contributions are being made, the asset side of the balance sheet would be increased or decreased by the difference.

CASH FLOW: MEMBER COOPERATIVES (RURAL) AGRICULTURAL YEAR

| | 1975 1/July/75 30/June/76 | 1976 1/July/76 30/June/77 | 1977 1/July/77 30/June/78 | 1978 1/July/78 30/June/79 | 1979 1/July/79 30/June/80 | 1980 1/July/80 30/June/81 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| <i>Source of funds</i> | | | | | | |
| Member savings | 82,330 | 123,300 | 201,350 | 175,010 | 261,410 | 390,800 |
| Collection of loans | 1,053,183 | 967,636 | 1,341,696 | 2,154,865 | 3,248,151 | 4,966,266 |
| Interest and dues income | 105,450 | 189,710 | 304,767 | 479,873 | 732,822 | 1,111,562 |
| Borrowing CREDICOOP/BNF | 647,487 | 1,024,988 | 1,704,591 | 2,707,568 | 4,147,474 | 6,316,575 |
| | 1,888,460 | 2,305,634 | 3,552,401 | 5,517,316 | 8,389,857 | 12,785,203 |
| <i>Utilization of funds</i> | | | | | | |
| Loans to members | 700,000 | 1,268,437 | 2,040,962 | 3,232,852 | 4,949,467 | 7,526,167 |
| Repayment of borrowings | 602,153 | 847,487 | 1,206,675 | 1,804,591 | 2,707,568 | 4,147,474 |
| Interest expense | 64,714 | 97,141 | 161,074 | 254,948 | 389,564 | 592,270 |
| Cash operating expenses | 106,789 | 113,933 | 135,330 | 158,383 | 188,772 | 222,375 |
| Savings in CREDICOOP | 6,058 | 28,083 | 48,284 | 76,250 | 120,035 | 186,270 |
| Investments in fixed assets | 24,000 | 24,000 | 27,000 | 30,000 | 34,000 | 38,000 |
| Inventories supplies | 10,000 | 12,000 | 13,500 | 15,000 | 17,000 | 19,000 |
| Increase (Decrease) in working capital | 374,746 | (85,447) | (80,424) | (54,708) | (16,549) | (53,647) |

The cooperatives which received three- to four-year extensions from the BNF are collecting and projected to collect at a faster rate from their own member.

CREDICOOP CASH FLOW

Source of funds

| | | | | | | |
|----------------------------------|---------|---------|-----------|-----------|-----------|-----------|
| Member savings urban/rural | 7,208 | 29,858 | 50,566 | 78,884 | 123,039 | 189,655 |
| Collection of loans | 5,000 | 79,200 | 495,000 | 856,350 | 1,423,125 | 2,247,300 |
| Operating revenues | 18,761 | 58,390 | 95,715 | 152,461 | 229,966 | 348,724 |
| AID Loan (net new) | — | 459,902 | 341,804 | 541,633 | 785,198 | 871,463 |
| Other borrowing | 1,539 | — | — | — | — | 317,938 |
| Grant funding expense | 124,193 | 110,500 | 82,639 | 57,818 | 21,246 | — |
| Grant funding commodities | 25,000 | 6,000 | 20,000 | 15,000 | 10,000 | — |
| Grant reserves | 70,000 | — | — | — | — | — |
| | 251,701 | 743,850 | 1,085,724 | 1,702,146 | 2,592,574 | 3,975,080 |

Utilization of funds

| | | | | | | |
|-----------------------------------|---------|---------|---------|-----------|-----------|-----------|
| Loans | 80,000 | 500,000 | 865,000 | 1,437,500 | 2,270,000 | 3,530,000 |
| Repayments of loans | — | 1,539 | — | — | — | — |
| Interest | 154 | 9,190 | 16,034 | 26,867 | 42,571 | 60,000 |
| Cash operating expenses | 142,000 | 154,700 | 153,670 | 169,037 | 185,941 | 204,535 |
| Investments in fixed assets | 15,000 | 10,000 | 10,000 | 15,000 | 10,000 | 5,000 |
| Inventories | 4,000 | 10,000 | 10,000 | 15,000 | 15,000 | 15,000 |
| Funded reserve BNF | — | 5,000 | 8,650 | 14,375 | 22,700 | 35,300 |
| | TOTAL | 241,154 | 704,829 | 1,163,354 | 1,677,779 | 2,546,219 |
| Increase in working capital | 10,547 | 39,021 | 22,370 | 24,367 | 46,362 | 125,243 |

FUNDING AND OPERATING INCOME AND EXPENSES: CREDICOOP IN US\$

| | 74 | 75 | 76 | 77 | 78 | 79 | 80 |
|--|---------|---------|---------|-----------|-----------|-----------|-----------|
| 1. Sources of Capital Funds | | | | | | | |
| <i>a. Capitalization and other dues</i> | | | | | | | |
| (1) Urban CU's | 2,176 | 3,972 | 4,647 | 5,408 | 6,254 | 7,188 | 8,212 |
| (2) Rural | 1,773 | 4,489 | 5,593 | 7,320 | 9,023 | 11,236 | 14,195 |
| (3) Total | 3,949 | 8,461 | 10,240 | 12,728 | 15,277 | 18,424 | 22,407 |
| <i>b. Savings of Credit Unions</i> | | | | | | | |
| (1) Urban 2.5% of savings increase | 2,125 | 1,150 | 1,775 | 2,075 | 2,389 | 2,720 | 3,058 |
| (2) Urban 5% of loans | 761 | — | — | 207 | 245 | 284 | 327 |
| (3) Rural 2.5% of savings increase | 3,963 | 2,058 | 3,083 | 5,034 | 4,375 | 6,535 | 9,770 |
| (4) Rural 5% of loans | 150 | 4,000 | 25,000 | 43,250 | 71,875 | 113,500 | 176,500 |
| (5) Total | 6,999 | 7,208 | 29,858 | 50,566 | 78,884 | 123,039 | 189,655 |
| <i>c. Borrowing of CREDICOOP</i> | — | 1,539 | 459,902 | 801,706 | 1,343,339 | 2,128,537 | 3,317,938 |
| 2. Uses of Funds | | | | | | | |
| <i>a. Loans to rural CU's</i> | 3,000 | 80,000 | 500,000 | 865,000 | 1,437,500 | 2,270,000 | 3,530,000 |
| <i>b. Deposits in banks and other miscellaneous uses</i> | 14,130 | 27,338 | 21,338 | 21,338 | 21,338 | 21,338 | 21,338 |
| 3. Cumulative | | | | | | | |
| <i>a. All dues</i> | *5,949 | 14,410 | 24,650 | 37,378 | 52,655 | 71,079 | 93,486 |
| <i>b. Savings of all CU's</i> | 18,181 | 25,389 | 55,247 | 105,813 | 184,697 | 307,736 | 497,391 |
| <i>c. Borrowing of CREDICOOP</i> | — | 1,539 | 461,441 | 1,263,147 | 2,606,486 | 4,735,023 | 8,052,961 |
| <i>d. Reserves grant fully invested</i> | — | 70,000 | 70,000 | 70,000 | 70,000 | 70,000 | 70,000 |
| <i>e. Available for loans to rural CU's</i> | 24,130 | 111,333 | 611,338 | 1,476,338 | 2,913,838 | 5,183,838 | 8,713,838 |
| <i>f. Loans to rural CU's</i> | *10,000 | 90,000 | 590,000 | 1,455,000 | 2,892,500 | 5,162,500 | 8,692,500 |
| 4. Operating Revenues | | | | | | | |
| <i>a. Annual dues 1.a.3</i> | 3,949 | 8,461 | 10,240 | 12,728 | 15,277 | 18,424 | 22,407 |
| <i>b. Program revenues (audit and education)</i> | | | | | | | |
| (1) Urban CU's | 228 | 1,800 | 1,900 | 2,000 | 2,100 | 2,200 | 2,300 |
| (2) Rural CU's | 500 | 1,500 | 2,500 | 3,000 | 3,500 | 4,000 | 4,500 |
| (3) Total | 728 | 3,300 | 4,400 | 5,000 | 5,600 | 6,200 | 6,800 |
| <i>c. Interest and commission income from rural CU's</i> | — | 7,000 | 43,750 | 75,688 | 125,782 | 198,625 | 308,875 |
| <i>d. Interest on deposited AID funds 1/12 of yr., 1 yr. lag</i> | — | — | — | 2,299 | 5,802 | 6,717 | 10,642 |
| <i>e. Total operating revenues (a + b3 + c)</i> | 4,677 | 18,761 | 58,390 | 95,715 | 152,461 | 229,966 | 348,724 |

| | 74 | 75 | 76 | 77 | 78 | 79 | 80 |
|--|----------|-----------|-----------|----------|----------|----------|---------|
| 5. Operating Cost | | | | | | | |
| a. Interest cost AID funds | ** — | 154 | 9,190 | 16,034 | 26,867 | 42,571 | 60,000 |
| b. Interest on other funds 8% \times $\frac{11}{12}$ | — | — | — | — | — | — | 22,865 |
| c. Loss on delinquent loans .01 | — | 800 | 5,000 | 8,650 | 14,375 | 22,700 | 35,300 |
| d. Personnel and special education 15,000 75-76 | 101,225 | 142,000 | 154,700 | 153,670 | 169,037 | 185,941 | 204,535 |
| e. Total | 101,225 | 142,954 | 168,810 | 178,354 | 210,279 | 251,212 | 322,700 |
| 6. Operating Results | (96,548) | (124,193) | (110,500) | (82,639) | (57,818) | (21,246) | 26,024 |

* Includes 73.

** Cost of NDB funds 75 only.