



DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington 25, D. C.

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UNITED STATES COORDINATOR  
ALLIANCE FOR PROGRESS

A.I.D. Loan No. 520-A-002  
(Ref: AID-DLC/P-281/A)

PD-AAA-883-A1

AMENDATORY LOAN AUTHORIZATION

Provided from: Development Loan Funds  
Guatemala Rubber

Pursuant to the authority vested in the Deputy United States Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, and having taken into consideration the Resolution of the Development Loan Fund Board of Directors DLF-LC/P-128, dated June 24, 1959, as amended November 29, 1960, I hereby amend said resolution to read as follows:

"WHEREAS, the Republic of Guatemala (hereinafter called the 'Applicant') has applied to the Development Loan Fund (hereinafter called the 'DLF') for a loan from the DLF to assist in financing the putting into production of rubber, by private investors, of approximately 80,000 acres of technically suitable land in Guatemala (such putting into production being hereinafter called the 'Project'); and

"WHEREAS, such a loan would assist, on a basis of self-help and mutual cooperation, the efforts of the peoples of Guatemala to develop their economic resources and to increase their productive capabilities; and

"WHEREAS, this application is eligible for a loan under the authority provided in Title II of Chapter III of the Mutual Security Act of 1954, as amended;

"NOW, THEREFORE, BE IT RESOLVED that there be and there hereby is authorized the establishment of a loan by the DLF to the Banco de Guatemala or other agency of the Applicant selected by the Managing Director of the DLF of not to exceed five million dollars (\$5,000,000) to assist in financing the foreign exchange and local currency costs of acquiring equipment, materials and services required for the Project, this loan to be subject to the following terms and conditions:

"1. Interest.

"(a) On all balances outstanding on the loan to finance subloan or other commitments entered into by Borrower on or before the date on which Borrower and the Agency for International Development ('A.I.D.') enter

into a Second Amending Agreement ('Amendment Date'), interest shall accrue at a rate of not less than four and three-quarters percent ( $4\frac{3}{4}\%$ ) per annum nor more than five percent ( $5\%$ ) per annum. Interest shall be payable semi-annually, the first payment to be due on a date no later than six (6) months after the date of the first disbursement under the loan.

"(b) Interest on the balance of the loan shall accrue at a rate of three percent ( $3\%$ ) per annum. Such interest shall be payable semi-annually, the first payment to be due on a date no later than six (6) months after the date of the first disbursement to finance subloan or other commitments entered into after the Amendment Date.

"2. Terms of Repayment of Principal. Disbursements under the loan shall be repayable in twenty-eight (28) successive semi-annual installments, the first of which shall be due and payable on a date no later than one (1) year after the date of the first disbursement under the loan. Each of the first eighteen (18) installments of repayment of principal shall be in an amount of not less than ten thousand dollars (\$10,000).

"3. Currency of Repayment. Provision shall be made for repayment of principal and payment of interest in currency of the United States of America.

"4. Other Terms and Conditions.

"(a) No more than \$100,000 of the funds made available under this loan shall be used to finance any single private investor without the approval of the DLF or A.I.D.

"(b) The interest rate charged to private investors with respect to items financed under this loan shall not exceed by more than four percent ( $4\%$ ) per annum the interest rate charged the Applicant on this loan.

"(c) Applicant and the Bank of Guatemala shall agree to conduct with A.I.D. a joint review of all subloan regulations and procedures with a view toward expediting effective implementation of the Project. Such review shall take place promptly after the Amendment Date.

- "(d) Prior to the first disbursement to finance subloan or other commitments entered into after the Amendment Date, Borrower shall submit evidence that procedures have been established to assure that intermediate credit institutions participating in the Project will receive an interest spread on subloans financed under the loan of no less than four percent (4%) on a current basis.
  
- "(e) Such other terms and conditions as the DLF or A.I.D. may deem advisable, including appropriate provision with respect to a terminal date for disbursements under the loan.

"RESOLVED FURTHER, that the Managing Director, or any representative to whom he shall delegate this authority, be and he is hereby authorized to execute for the DLF, such agreement or agreements and to take such other actions as he may deem necessary or convenient, consistent with this Resolution and the authorities provided in the above-cited Act, to carry this Resolution into effect."

*William D. Ayres*

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Deputy U.S. Coordinator  
Alliance for Progress

*September 15, 1964*

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Date

DEPARTMENT OF COMMERCE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20540

September 5, 1964

MEMORANDUM FOR THE FILES

SUBJECT: Guatemala - Rubber Production

In accordance with the Memorandum (AID-DLG/P-231-1), dated September 3, 1964, a telephone poll was conducted on September 4, 1964 on the recommendations for awarding of the subject loan. (See AID-DLG/P-231)

The results of the poll were as follows:

State (Mr. Chase)	No objection
Treasury (Mr. Bauer)	No objection
Excise (Mr. Sauer)	No objection
AA DPE (Mr. Folk)	No objection

Reuel C. Rogers  
Assistant Secretary  
Development Loan Committee

Distribution:

Mr. Brown, US AID/G )  
Mr. Murphy, LA/CD )  
Mr. Hornbostel, GC/LA ) thru LA/CD  
Mr. Steins, GEN/G )  
Mr. Grand, LA/CD )  
Mr. Stone, FC  
Mr. Walker, ENGR  
Mr. Silverstone, GC  
Mr. Schneisser, MR  
Mr. Folk, DPE  
Mr. Ross, DPE  
Mr. Johnson, DPE  
Miss Rogers, DPE

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

AID-DLC/P-281/1  
September 3, 1964

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Guatemala - Rubber Production

A telephone poll will be conducted by c.o.b. on Friday, September 4, 1964, in order to secure for the Administrator the advice of the Development Loan Committee on the recommendations for amendment of the subject loan. (See AID-DLC/P-281)

It is requested that one copy of this Memorandum signed, as appropriate, be returned to this office.

CONCUR: \_\_\_\_\_

DATE: \_\_\_\_\_

OBJECT: \_\_\_\_\_

REASON: \_\_\_\_\_

Helen E. Nelson  
Secretary  
Development Loan Committee

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

AID-DIC/P-281  
(Ref. DLF-LC/P-128)  
July 29, 1964

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Guatemala - Rubber Production (A.I.D. Loan 520-A-002)

Attached for your review are the recommendations for authorization of an amendment to the subject loan. This amendment is necessary to expedite commitments under the loan and to extend the terminal date for requests for disbursement.

This proposal is scheduled for consideration by the Development Loan Staff Committee at its meeting on July 31, 1964.

Helen E. Nelson  
Secretary  
Development Loan Committee

Attachment: As stated.

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AID-DLC/P-281  
(Ref. DLF-LC/F-128)  
July 29, 1964

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: A.I.D. Loan 520-A-002 (DLF #63)  
(Guatemala: Rubber Production)

Problem: Commitments under this loan have been moving more slowly than desirable and action to expedite commitments is considered necessary. Additionally, an extension in the terminal date for requests for disbursement is needed if more than \$2.6 million of this \$5 million loan is to be disbursed (Annex I).

Background:

a. Initial Terms

The project as originally considered by the Development Loan Fund envisaged disbursements over a period of ten years, i.e., the funding of four seven-year growing periods spaced one year apart. Total project costs were estimated at \$41 million, of which \$12 million was estimated to be required from DLF funds. Of this \$12 million, \$5 million was intended to cover disbursements over the first four years of the project; the DLF anticipated that \$4 million in additional funding would be required, supplemented by \$3 million in rollover funds generated by repayments from early subloans.

The Rubber Production Loan was signed on August 17, 1959, in an amount of \$5 million. The loan provided for one year's grace in principal repayments, with token semiannual principal repayments of \$10,000 over a period of nine years, and repayment of substantial principal in the tenth, eleventh and twelfth years. Original interest rate was 5 3/4%. The loan was extended to the Bank of Guatemala, and procedures were established whereunder the BOG would make loan proceeds available to rubber planters through intermediate banking institutions.

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b. Modified Terms

During the period 1959-1962, the loan was practically inoperative. Rates to planters (6% during the first seven years, 8% during the last three years) were high for a new crop with long maturity. Even so, these rates left the intermediate bank a maximum 2% spread only. Consequently, the Bank of Guatemala requested DLF to alter the loan terms. This request and subsequent conferences and communications resulted in the following actions:

- i. DLF agreed to extend the terminal date for requesting disbursements to December 31, 1968.
- ii. The Government of Guatemala established in the BOG a Loan Guarantee Fund which finances the token semiannual capital repayments, pays a 2% per year fee to intermediate banking institutions making rubber subloans, and provides some capital for coverage of default on subloans by ultimate borrowers. Loan operating regulations were modified to establish subloan interest rates at 5% for the first seven years and 7% for the next three years.\*
- iii. An amendatory loan agreement was signed which reduced the DLF-charged interest rate from 5 3/4% to 5% and expanded the area eligible for planting.
- iv. The Bank of Guatemala dropped its charge of 1/4 of 1% for managing this loan.

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\* In essence, this arrangement provides the secondary bank with a 2% spread during the subloan term, i.e., the 2% fee for the first seven years and a 2% interest spread during the last three.

c. Utilization Rate

As a result of the foregoing actions, commitments by subloan agreements reached \$2.7 million on December 31, 1963, or an average rate of more than \$1 million per year since the loan became truly operative (Annex I). Disbursements under the Rubber Production Loan lag behind subloan commitments since subloan payments are made over a seven-year period to conform to annual costs of planting and developing the plantation. Therefore, the maximum amount which could qualify for disbursement under the present terminal date for requests for disbursements would be \$2.6 million.

d. Problems Impeding More Rapid Utilization

The status of this loan was discussed at length among Mr. Glaessner, US AID officials, and Guatemalan banking officials in mid-April. Information developed prior to and during Mr. Glaessner's visit revealed two principal factors which limit accelerated commitment of remaining funds:

- i. Inadequate Service Charge - The present fee of 2% per annum is insufficiently attractive to the commercial banking system, and only INFOP, as a government institution, is prepared to process loans for this fee. The lack of participation by banks other than INFOP is a major factor in delaying commitments, and may be responsible for elimination of many applicants who cannot arrange security except through their own bank. <sup>1/</sup> Bank of Guatemala officials feel that a 4% spread is required to encourage private banks to participate actively in this program.

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1/ - It is a common practice in Guatemala for farms to be entirely mortgaged to a bank for a loan of lesser value. Since second mortgages are virtually unknown, this disqualifies the property for use as security by another banking institution. However, A.I.D. understands that the holder of the first mortgage may grant additional loans to the farmer using the original mortgage as security.

- ii. Level of Risk - Although Bank of Guatemala has authorized INFOP to accept crop mortgages and/or guarantees instead of land and building mortgages and to use the anticipated increase in land values in calculating security, INFOP has been afraid to make subloans without land and building mortgage guarantees. Rubber is a relatively new Guatemalan crop and its development requires a longer period of investment than is traditional for agricultural loans in Guatemala. Although the Loan Guarantee Fund was intended partially to encourage more liberal terms, it has not been entirely effective in its present form. The Loan Guarantee Fund does not protect the intermediate bank until the ten-year period of each respective subloan is completed. Thus, in the event of any default by a sub-borrower, INFOP's legal reserve with the Bank of Guatemala is debited.

A related problem is that the Government's contribution to the Loan Guarantee Fund (\$100,000 per year for seven years) services both the token semiannual principal repayments and the 2% fee to the intermediate bank, so that only a portion of the Government contribution actually remains to accumulate as a guarantee of subloan repayment. A higher level of Government contributions (perhaps to \$150,000 per year) would provide greater security to the intermediate bank, while a modification in the Guarantee Fund's regulations would permit its immediate applicability in case of subloan default.

Recommendations:

On the basis of the foregoing and the referenced conversations among Mr. Glaessner, INFOP, Bank of Guatemala and US AID, it is recommended that the loan be amended as follows:

- a. The terminal date for requests for disbursements (Section 7.02) should be extended from the present date of December 31, 1968, to December 31, 1972. Although it is estimated that interest rate adjustments, as recommended below, should accelerate commitments under the loan, the 1972 date is conservative and will provide seven years of disbursements for commitments made as late as 1965, and, with rollover, for 1966 commitments. Limitation of disbursements to \$2.6 million (the amount which could qualify for disbursement under the present terminal date) would deliberately negate and disrupt an agricultural development program which, even with the limitations described above, steadily is moving ahead and will make a major contribution to Guatemalan and Central American development and trade.
- b. The interest rate charged by A.I.D. should be reduced from 5% to 2%. This would permit the addition of 2% to the present 2% fee, raising the spread to the secondary bank to 4% in order to interest commercial banks in handling these loans. The remaining 1% would be added to the Loan Guarantee Fund to provide greater security against default.
- c. The foregoing actions would be conditioned on (i) an increase in the annual GOC contribution to the Loan Guarantee Fund from \$100,000 to \$150,000 per year; and (ii) immediate approval by the Finance Minister of a new interpretation of the terms of the Loan Guarantee Fund which would protect the intermediate credit institutions in the case of cancellation of subloans or failure to make amortization payments by the sub-borrowers. In addition, a strong effort would be made to liberalize the guaranteed requirements of the intermediate credit institutions.

Attachment- Annex I

Clearances:

PHornbostel:GC/LA PH  
 LSnyder:LA/ENGR LS  
 RBogardus:LA/CD RB  
 SGrand:LA/CD SG  
 PGlaessner:LA/CD PG

Drafted by: ALB by:LA/CD - ALBrown:US AID/Guatemala

DLF 63 (GUATEMALA: Rubber Production)

STATUS OF SUBLOAN COMMITMENTS (PART A) AND

PROJECTION OF SUBLOAN COMMITMENTS THROUGH FULL LOAN UTILIZATION (PART B)

(Based on Bank of Guatemala Report of December 31, 1963)

	SUBLOANS GRANTED			AMOUNT DRAWN TO - - 12/31/63	UN D R A W N A M O U N T S										
	Acres	No.	Art.		1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
PART "A" (Actual Subloan commitments approved by Bank of Guatemala)															
1959-61	54.2	1	6.0	2.0	2.5	0.5	0.5	0.5	- R e p a y m e n t -						
1962	7423.3	11	1834.0	874.5	141.0	167.0	273.6	275.6	102.3	- R e p a y m e n t -					
1963	3814.1	15	878.5	231.2	147.5	63.5	59.2	81.2	177.0	118.9	- R e p a y m e n t -				
Sub-Total	11381.6	27	2718.5	1107.7	291.0	231.0	333.3	357.3	279.2	118.9					
PART "B" (Additional Subloan commitments projected through full loan utilization at 4000 acres/year <sup>1/</sup> )															
1964	4000.0		908.9		266.1	83.2	54.3	47.4	36.2	226.2	195.5	- R e p a y m e n t -			
1965	4000.0		908.9			266.1	83.2	54.3	47.4	36.2	226.2	195.5	- R e p a y m e n t -		
1966	2050.0		463.7				136.3	42.7	27.8	22.3	13.6	115.9	100.2	- R e p a y m e n t -	
Sub-Total	10050.0		2281.5		266.1	349.3	273.8	144.4	111.4	284.7	440.3	311.3	100.2		
TOTAL	21431.6		5000.0	1107.7	557.1	580.3	607.1	501.7	390.7	403.6	440.3	311.3	100.2		

<sup>1/</sup> Estimate is conservatively based on 1963 commitment rate.

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