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

CAPITAL ASSISTANCE PAPER

Project Number - 520-24-230-173
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Proposal and Recommendations
For the Review of the
Development Loan Committee

GUATEMALA: FINANCIERA INDUSTRIAL Y AGROPECUARIA, S.A. (FIASA)

6/28/67

AID-DLC/P-575

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

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AID-DLC/P-575
June 28, 1967

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Guatemala: Financiera Industrial y Agropecuaria, S.A. (FIASA)

Attached is a revised page to be inserted in the subject Capital Assistance Paper.

The recommendations for authorization of a loan in an amount not to exceed $5,000,000 to the Financiera Industrial y Agropecuaria (FIASA), or the organizers thereof, to assist in financing the creation of a private industrial and agricultural development bank to make loans and equity investments in sub-projects promoting the creation, expansion and more effective operation of private industrial and agricultural enterprises in Guatemala and the other member countries of the Central American Common Market were discussed by the Development Loan Staff Committee at a meeting on Friday, June 2, 1967.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments: (Revised June 28, 1967)
Summary and Recommendations, p. ii

Previously Distributed: Revised June 22, 1967
Summary and Recommendations, pp. ii and iii
Project Analysis, pp. 17 and 18
ANNEX I, p. 2
ANNEX VIII, p. 1

Revised June 12, 1967:
Summary and Recommendations, p. iii
Project Analysis, p. 19

May 26, 1967:
Summary and Recommendations
Project Analysis
ANNEXES I-VIII

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May 26, 1967

GUATEMALA

FINANCIERA INDUSTRIAL Y AGROPECUARIA, S. A. (FIASA)

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FINANCIERA INDUSTRIAL Y AGROPECUARIA, S. A. (FIASA) May 26, 1967

SUMMARY AND RECOMMENDATIONS

1. BORROWER: Financiera Industrial y Agropecuaria (FIASA), a private development bank or "financiera".

2. LOAN AMOUNT: $5,000,000 of which amount up to $100,000 may be used for technical assistance to the Borrower. All capital assistance funds shall be used for the procurement of commodities and services from the United States.

3. PURPOSE: To assist in the creation and capitalization of a private development bank which will make medium and long term loans to and investments in private industrial enterprises in Central America as well as limited agricultural loans and investments.

4. DESCRIPTION OF THE PROJECT: This financiera has been organized by private businessmen in Guatemala. It represents a consolidation of various business groups each of which had set about organizing its own financiera. No manager has been selected, but there are several qualified Guatemalans being considered for the job. The financiera will be initially capitalized by the U.S. $5.0 million AID loan coupled with Q $*1.25 million in equity capital raised by the sponsors for an initial debt to equity ratio of 4 to 1. The financiera hopes to supplement this with modest amounts of short term foreign bank borrowings as it becomes established.

5. EXIM BANK AND OTHER CLEARANCES: On May 1, 1967, the ExIm Bank informed AID that it was not interested in financing this project. Letters expressing a similar lack of interest have been received from the World Bank (and IFC) as well as the Inter-American Development Bank.

6. VIEWS OF THE COUNTRY TEAM: The Embassy and the USAID have given great assistance to the development of this project. They have devoted considerable time and attention to the problem of bringing together the various groups interested in the financiera. The Country Team sees the project as an opportunity to get some developmental effort out of

* 1 US $ = 1 Q

what has been considered by many an almost indifferent private sector.

## 7. ISSUES AND PROBLEMS

### a. Reserves and Interest Spread

This financiera will probably have to carry the full foreign exchange risk. We are recommending a continuing contribution of 3% of long-term foreign debt per year in order to build a reserve for protection against any future currency fluctuation. These annual contributions will continue until the reserve reaches 20% of long-term foreign debt at which time the reserve will be maintained at that level. This financiera will also maintain a reserve for bad debts of 2% of its portfolio as do the other financieras. Finally, the law requires the financiera to deposit with the Central Bank a sum equal to 5% of its indebtedness for borrowed money (the legal reserve). Only this last reserve is funded; i.e., the monies in reserve are not available for use in the financiera's operations. The other two reserves (Exchange Risk and Bad Debts) are simply devices designed to reduce the amount of earnings available for dividends. We are requiring the stockholders to keep assets in the financiera as a hedge against these two risks which AID, as a creditor, shares with them. While the contributions to these two reserves may not be income tax deductible (it appears that the bad debt contribtuion is deductible), they should be regarded as expenses of doing business. The legal reserve will be funded with Q$250,000 of the borrower's equity capital so it need not be provided out of operating income from the financiera. The other two reserves will have to be maintained out of gross income. It is for this reason that such an apparently large interest spread between the A.I.D. lending rates ($1\frac{1}{2}$ and $2\frac{1}{2}$%) and the relending rate (10-12%) is recommended. When the exchange risk reserve is accounted for, the interest spread is no more than 6%, which is not excessive as will be shown in the financial analysis section of this paper. Each of the three reserves must be maintained independently of the others.

b. Funds for Local Costs Financing

This is the first financiera to receive an initial "seed capital" AID loan that contains no funds for local costs financing. This may make it more difficult to place the money. One cannot with any accuracy predict the local and foreign exchange cost of a development bank; however, most of the financieras have found it easier to use their local currency AID funds. On the other hand, DISA (the Panamanian financiera) had no difficulty placing its dollar financing and did not fully use its first AID loan option to take down some of the funds in local currency. DISA does not make loans for working capital purposes and this may explain the different experience. Working capital loans are for sales and inventory financing and consequently almost always for local costs procurement. Because of the Guatemalan law which requires financiera loans to exceed three years and because the AID loan is all dollar financing, FIASA will not make ordinary working capital loans as such. This financiera will have Q$1.0 million of its own funds for local costs financing. Perhaps it will be able to use some of its private bank lines of credit for this purpose as well. If it appropriates its local currency resources in an intelligent manner by using them as an inducement for sub-borrowers who are considering large foreign exchange borrowing, we believe FIASA will have no difficulty placing the AID funds.

8. RECOMMENDATIONS: Authorization of a loan in an amount not to exceed US$5,000,000 of which up to $100,000 may be used for technical assistance to the Borrower.

A. Terms:

1. Amortization - 20 years.
2. Grace period on principal repayment - 5 years.
3. Interest - 1½% for 8 years and thereafter 2½% unless GOG or Central Bank assumes exchange risk, then 5%.
4. The two-step terms (40 years, 10 years grace, interest at 1% during grace period and 2½% thereafter) to the Government will be required.

B. Conditions:

1. Conditions Precedent to Initial Disbursement:

a. Appointment of a manager satisfactory to AID.

b. Employment of a staff and adoption of by-laws and operating policies satisfactory to AID.

c. Subscription of Q$1.25 million in equity capital and paying in of at least Q$300 thousand.

2. Other Conditions:

a. Goods and services financed with this loan shall be procured in the United States.

b. Equity capital must be paid in to Borrower at a ratio of not less than one part of equity capital to four parts of A.I.D. loan funds committed by Borrower to sub-projects. In any event all Q$1.25 million subscribed must be paid in within two years of the date of signing the loan.

c. Unless A.I.D. otherwise agrees in writing, Borrower will not change its Manager, by-laws, or major operating practices and policies.

d. Unless A.I.D. otherwise agrees in writing, Borrower will not with the disbursements of this loan:

i. make sub-loans at interest rates higher than 12% (including fees and commissions).

ii. make a sub-loan for less than three (3) or more than ten (10) years.

iii. make a sub-loan or investment for agricultural production credit.

iv. finance sub-projects if such financing would cause Borrower's total assistance to any single enterprise to exceed $100,000 or its equivalent in Guatemalan quetzales.

e. Unless the Central Bank or the Government of Guatemala accepts the foreign exchange risk on this loan, Borrower will maintain a reserve against this risk satisfactory to A.I.D.

f. Borrower will maintain a bad debt reserve (independent of other reserves) of 2% of its loan and investment port folio.

g. During the life of the loan, Borrower will not, unless A.I.D. otherwise agrees in writing in advance:

i. make equity investments totalling in the aggregate more than the shareholders'interest in FIASA, i.e., its net worth.

ii. declare or pay any cash dividend or make any distribution on account of any stock exceeding 10% annually of invested capital, unless any such dividend or distribution is matched by an equal crediting of earnings to retained surplus and equal prepayments of this loan in inverse order of maturity of principal payments.

iii. make a sub-loan or investment to an enterprise in which a director or a member of his immediate family has a financial interest, unless the sub-loan or investment has been approved by a majority of the board of directors with the interested director not voting.

iv. borrow more than US$1.0 million from other sources.

PROJECT COMMITTEE:

LA/CD, William Ludwig - Chairman
ROCAP, George Fortune - Financial Advisor
USAID/G, Charles Connolly - Loan Officer
ROCAP, Joseph Grimes - Counsel

Drafting Officer, William Ludwig

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# I. DETAILED DESCRIPTION OF THE PROJECT

## A. Background of the Project

In 1963 AID authorized the first loan to a private development bank or "financiera" in Central America. Since then AID has assisted in the organization of a financiera in Panama and all of the member countries of the Central Common Market except Guatemala. This project will complete the cycle. It is a second attempt in Guatemala, the first having ended with the deauthorization of a US $5.0 million AID loan in December of 1965.

The 1964-65 loan was deauthorized because the Borrower was unable to meet the conditions precedent to disbursement. Specifically, the Borrower had not subscribed the required amount of equity capital. They were not able to sell the full amount of shares because a government agency had ruled that an important group of their prospective shareholders (commercial banks) could not be represented on their board of directors due to a policy against permitting interlocking directorates among financial institutions. Many observers felt that this dispute was merely symptomatic of the previous government's lack of interest in the financiera. The sponsors of this financiera have been assured that the present government is sympathetic to their development aims and they do not expect to run into this or similar obstacles. The Country Team agrees that the situation has changed sufficiently so that the project should not founder on government or the lack of government action.

The private sector in Guatemala has shown much interest in the past year in the formation of a financiera. Various groups of Guatemalans and foreign investors have spoken with the AID mission about the possibilities of a loan. Two formal applications for a loan were filed. Both applicants were advised that AID felt that Guatemala could support but one financiera at this time and they were urged to merge. However, the two applicants were unable to reconcile their differences and AID was forced to choose between them. Both seemed competent and perhaps either could have made a success of the project. The application accepted for intensive review was selected because AID believed this applicant had the greater prospects for success due to its broader base in the Guatemalan private sector (It actually represents an amalgamation of four groups). It is hoped that the members of

the unsucessful group will lend their support to this applicant and some have indicated their willingness to do so.

This loan was approved for intensive review by the CAEC on April 18, 1967. The Executive Committee raised several questions concerning this financiera which will be discussed in this paper. The most significant issues raised by the committee (the size of the proposed loan and the role of the financiera in agricultural lending) have been subsequently modified during intensive review. This applicant presently has neither the expertise nor the inclination to make agricultural production sub-loans, and all parties concerned agreed that the financiera will probably not be able to commit more than US$5.0 million to economically appraised projects in its first two years.

B. The Borrower

The borrower will be a corporation organized under the laws of Guatemala. The loan will not be guaranteed by the Government of Guatemala. As a condition of the US $5.0 million AID loan, the borrower will sell Q $ 1.25 million (1 Q = 1 US $) in shares of its stock. This equity contribution will be paid in as required and, in any event, at a ratio no less than one part equity to four parts AID loan as the AID loan is committed. Formal subscription of the full Q $ 1.25 million will be made a condition precedent to disbursement of any AID loan funds. The corporation code of Guatemala provides that written subscriptions are legally enforceable obligations of the subscriber. The sponsors report that they presently have commitments from prospective stockholders to purchase approximately Q $ 1.2 million in shares. This group includes foreign banks, as well as ADELA (a private investment company which has previously worked with AID in the establishment of financieras) and several of the other Central American financieras. The sponsors plan to issue approximately 25% of the shares to foreign stockholders. The sponsors expect to call for a 5% pay in on subscriptions in the near future, both to demonstrate the good faith of the subscribers and to offset the organization expenses.

The bylaws of the Borrower have not been officially approved by the proper supervisory authority (the Monetary Board). The Monetary Board is not disposed to permit the issuance of bearer as opposed to registered shares (a minor problem which need not concern AID) and they have not set a maximum financiera lending rate. The financiera plans to lend at 10% and 12% depending upon the nature of the credit, other compensatory factors, and risk. Local commercial banks are permitted by law to charge no more than 9% on loans (8% interest plus a 1% commission);however, with prevailing tight money conditions this is an artificially low interest rate. A local banker reports that individuals and other nonbank lenders are presently charging 12% for their money with effective rates running as high as 15%. Commercial bank loan agreements commonly provide that the interest rate on the loan shall automatically increase if and when the legal ceiling is raised.

A prospective manager has been identified but he and the sponsors have not yet agreed upon the terms of his employment. The sponsors have mentioned two other prospects they plan to approach if the present negotiations are not successful. The USAID regards all three men highly and each seems, on the surface at least, professionally qualified (one is a banker, another an economist, and the third is a businessman engineer). The appointment of a manager who meets with AID's approval will also be made a condition precedent to disbursement of the loan.

The project committee has spoken with the sponsors about the importance of a strong manager. In Latin America there exists a tendency of Boards of Directors to involve themselves too much in the operations of a company. This has a particularly adverse affect upon financial institutions if the credit judgment of the manager is subjected to complete review and frequently challenged. This kind of director domination hurts the institution in its relations with third parties (it becomes "bureaucratic") and it results in fewer but more tightly secured loans, and, in some cases, in an excess of political activity within the Board of Directors.

The principal sponsors are aware of instances where director involvement has injured financieras and they propose to let their manager run this one if they get the kind of man they are seeking. In monitoring this loan, however, AID should be alert to this problem.

The borrower will lend both on a secured and an unsecured basis depending upon the nature of the transaction and the credit of the sub-borrower. Whether secured or unsecured all loans will be made to sub-borrowers whose earnings prospects are such that the debt can be serviced out of income. The Borrower will not simply lend against the value of collateral. This is the heart of "appraisal banking". All projects financed by the Borrower will be technically and economically evaluated as well. We believe present staffing plans are adequate for this purpose. Furthermore, through its association with ADELA, the financiera will have access to the services of ADELATECH to assist with appraisals when required. The project committee sees no need for AID-financed technical assistance to the Borrower at this time; however, we are recommending that up to US $100,000 of loan funds be permitted to be used for this purpose if and when needed in the judgment of AID and the Borrower.

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C. The Project

The purpose of this loan is to provide the long term financing required to properly capitalize a development bank designed to make medium and long term loans to and investments in industrial concerns and (with limitations to be subsequently discussed) agricultural enterprises.

The Decree Law governing private finance corporations is set out in its entirety in Annex IV of this paper. It provides the general framework within which this financiera will operate. All in all we believe this legislation adequate and indeed it has been already found to be adequate by AID when the 1964 financiera loan was authorized. Three sections deserve special attention. Article 7 authorizes the Monetary Board (a government agency with private sector representation) to set the maximum interest rates at which financieras can lend; Article 9 requires the maintenance of a deposit in the Central Bank in the amount of 5% of money borrowed; and Article 10b requires that borrowing abroad must be approved by the Monetary Board.

As it should be, the decree law is broadly permissive in enumerating the activities the financiera may engage in. They are prohibited from lending for less than three years, except as permitted by the Monetary Board, taking deposits, making housing loans, lending more than 20% of their resources to one borrower, acquiring for investment more than 25% of the shares of another company, and directly engaging in manufacturing, farming, commerce, or mining.

The Borrower's draft by-laws or "statues" provide for authorized capital of Q$2,000,000 consisting of 200,000 shares of common stock with a par value of Q$10. These shares may be suscribed and issued by the directors in response to the needs of the financiera, but they may not be issued for less than their par value.

The draft by-laws provide that the financiera shall be governed by a Board of Directors of 5 to 15 directors elected every three years by the shareholders and presided over by a President who is a director. The directors are required to meet at least once a month. The Chief Executive Officer is the Manager who may or may not be a director . The by-laws authorize the Manager to be the legal representative of the financiera, supervise employees and operations, and act in all matters in which he has been so authorized by the Board. The by-laws also provide for an outside auditor to be appointed by the Assembly of Shareholders.

The by-laws provide that dividends can only be paid from profits and then only if no deficit exists on the balance sheet.

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In addition to those conditions and restrictions placed upon the operations of the financiera by the decree law and by its own bylaws, we propose to include the following provisions in the loan agreement or implementation letter.

The final report of the AID ad hoc committee on industrial policy in Central America has not as yet been revised to reflect the opinion of the Mission Directors. Nonetheless, certain policies have been agreed upon and we propose to reflect them in the loan documents.

The financiera will be required to assign highest priority in the use of the AID funds to loans for export producing industries and to food processing and other agro-industries. In addition, in accordance with the recommendations of the committee, the financiera will be asked to agree to lend or invest only in industries of scale which would be viable without excess tariff protection or excessive duty free import privileges. 1/

The ad hoc committee also suggested that in cases where appropriate private or government financing does not exist, the financieras be authorized to make agricultural sub-loans. Financiera Hondurena is already doing this. It is our view that most of the agricultural credit needs of Guatemala will be met by commercial banks or government institutions, in many cases with AID and IDB funds. Nonetheless, there is no reason why the financiera should not be eligible (if it so chooses) to act as an intermediary under the AID rubber production loan. The sponsors of the financiera expressed no wish to move immediately into agricultural lending except as this might be complementary to an industrial project. By way of illustration they said they would be willing to finance cattle as a part of a meat processing project. We are therefore recommending that the loan agreement provide that unless AID otherwise agrees in advance, the financiera will make no sub-loans or investments for agricultural production.

1/ - In one of its interim reports, the Committee suggested that the financiera subloans be authorized for projects which increase the production of items upon which the common external tariff is [illegible] the average landed costs of the goods unless the projects are particularly approved by A.I.D. A similar requirement was suggested for projects using more than 60% of their raw materials free of duty. The Committee's recommendation was that all Central American USAID's and IDB's would [illegible] to any exceptions to these two requirements. If it is possible to formulate these requirements in an acceptably clear way, they will be included in the loan agreement or implementation letter. We do not propose, however, to require the concurrence of all the Central American Missions to their application. USAID/Guatemala, with assistance from ROCAP, appears qualified to evaluate a request for an exception should a case arise.

There are a number of restrictions which A.I.D. customarily places upon private development banks which appear in the summary section of this paper and need not be repeated here. They are designed to provide protection for AID as a creditor and to insure the viability of the financiera.

D. Project Goals

We have thus far approached the problem of project definition by emphasizing what the financiera cannot do. This point of view was adopted because it is easier to prescribe restraints than it is to enumerate all the developmental activities which we would like to see the financiera pursue. However, it is proper to ask what are AID's goals? This question has generally been answered by stating that our principal goal is the creation of an institution, the development bank itself. But for what purpose do we need a new institution? As will be shown in the economic justification section of this paper, we believe that a gap exists in the capital market in Guatemala. Adequate funds for medium and long term sub-loans and equity investments are not available to new and expanding industries. We mean to help fill this gap. Second, the direction of investment into priority economic areas is to some extent possible through the promotional activities of a financiera. We expect this financiera to perform an active appraisal banking function, but we should not expect them to turn away economically justifiable projects because they do not fit into our highest priority categories. The Borrower will be required to describe its loan and investment appraisal methods in the statement of operating procedures submitted as a condition precedent to disbursement of this loan.

An indirect but important goal of this project is to bring new ideas and practices into the banking system. We have seen evidence of this happening in other countries where commercial banks have altered their lending policies by extending longer term loans because of the activities of AID financed intermediate credit institutions.

The creation of a capital market is a major long run goal to be pursued in assisting in the establishment of these financieras. As the early year pressures for immediate cash income subside, they will be able to shift more into the investment banking business. The prospects of capital gains and underwriting commissions as contrasted to fixed interest income will begin to appear attractive. In order to underwrite or to realize a capital gain one must first develop a market for securities. The existing Central American financieras are aware of this and they are considering the formation of a Central American mutual fund as a first step in this direction.

Another goal of this loan is to promote regional economic ties. This financiera is exploring the possibility of placing some of its shares with the other Central American financieras. They have received favorable responses from two and hope to interest the others. They plan to invest some of their own funds in the shares of the

other financieras. This practice was specifically recommended by the AID ad hoc Central American Industrial Committee previously referred to. This financiera, like the others, is likely to do consortium financing with the Central American Bank for Economic Integration (CABEI) or with other commercial and development banks in the region. This too strengthens the ties of economic integration.

## II. ECONOMIC ASPECTS

### A. Economic Situation in Guatemala

Guatemala, the largest of the countries of Central America, has a physiognomy and economy typical of the region as a whole. A mountainous spine runs through the center of the country from north to south, spotted with fertile intermontane basins where the bulk of the population resides. In addition, there is a tropical Caribbean lowland region, connecting with the extensive area in the north known as the Petén, which is an extension of the Mexican tropical lowlands of Chiapas and Yucatán. The Pacific lowlands, on the other hand, cover an extensive area of relatively moderate climate and rainfall, and with better soils than the eastern and northern lowlands.

Traditionally, the principal export crops of Guatemala were coffee and bananas, but cotton exports have replaced bananas in second place since the beginning of this decade. In addition, Guatemala exports sugar, beef, cotton seed, essential oils and shrimp in lesser but substantial amounts. In recent years, Guatemala has been under severe financial pressure due to declines in the prices of its principal exports and its growing import needs. Political instability has also at times led to a flight of capital, worsening the over-all financial picture. A further inhibiting factor has been the inadequacy of power resources in the country, despite considerable potential for the production of hydroelectric power. On the other hand, the transportation and communication situation is relatively good, with almost 8,000 miles of paved or graded roads, almost 1,200 miles of rail and a fairly decent telephone system, at least in the capital. In terms of GNP, the typical rate of growth of the economy has been between 3 and 4 percent per year in recent years. Estimates are that the rate was slightly over 4 percent in 1966, and that it will be lower (possibly 2 - 3 percent) in 1967. Since the population of Guatemala is growing at about 3.2 percent per year, in terms of per capita income this growth has been unsatisfactory and well below the 2.5 percent per capita growth target of the Alliance for Progress.

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CENTRAL AMERICA --- 1965

| | Population(mn) | GNP(mn$)* | Annual Growth of GNP, 1960-65 (%) | Per Capita Income ($) |
|---|---|---|---|---|
| Guatemala | 4.43 | 1,220 | 3.7 | 275 |
| Honduras | 2.20 | 447 | 4.1 | 232 |
| El Salvador | 2.90 | 783 | 6.2 | 270 |
| Costa Rica | 1.46 | 530 | 1.2 | 363 |
| Nicaragua | 1.63 | 486 | 6.9 | 319 |
| Total | 12.62 | 3,317 | 4.1 (ave.) | 262 (ave.) |

* In 1960 dollars

Guatemala is along with Honduras, the most underdeveloped of the Central American countries. Although it has approximately 35% of the population of Central America as a whole, the value of its exports is only 28% of the total, one indication of the fact that more than half the population of Guatemala lives outside the money economy. In the latest estimate (1964), 54% of the inhabitants were classified as "Indigenous" a classification having to do not necessarily with the race of the individual, but rather whether he maintains his traditional customs, dress and language, or whether he had adopted western culture. Guatemala has the highest percentage of the total population engaged in agriculture in all Central America--68%, slightly higher than Honduras.

There is a higher concentration of persons in the lower strata of society in Guatemala than in any other Central American country, with the exception of Honduras. In Central America, as a whole, approximately .16% of the population may be classified as upper class ($510 monthly income or higher), 6.25% as middle class ($105-510 monthly) and 93.5% as lower class. In Guatemala the percentages are, .16%, 6.22% and 93.62%. We may compare this with Costa Rica, the Central American country most prosperous in per capita terms, where the percentages are, .20%, 8.08% and 91.71%, respectively.

A multiple variable analysis resulting in a scale of relative poverty in Central America, demonstrates that Guatemala and Honduras are poor in regional terms and El Salvador , Nicaragua and Costa Rica relatively rich. If Costa Rica is given an index of 100, the other countries scale as follows:

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| Country | Position in Relation to Costa Rica |
|---|---|
| Costa Rica | 100 |
| Nicaragua | 72 |
| El Salvador | 54 |
| Honduras | 38 |
| Guatemala | 27 |

Traditionally, the countries of Central America have had negative trade and services balances, which have been compensated for by the movement of capital. Generally Guatemala has had the worst trade deficit in the region, but in 1965 the 1964 trade deficit was diminished. The 1965 Guatemalan balance of payments is shown in Annex III. It should be noted that a much greater loss of international reserves was averted only through large infusions of public capital.

As of 1965, manufacturing only accounted for about 15% of the gross national product of Guatemala. The vast bulk of what industry exists is very small. The last industrial census (1962) counted 38,187 industries that can only be considered in the artisan class (less than five workers); as well as 1,482 factories with 5-19 workers, 376 with 20-49 workers, 126 with 50-99 workers and only 94 with more than 100 employees. Recently the Monetary Board of Guatemala made a series of studies of Guatemalan industry and agriculture in an attempt to decide where investments in capital and personnel would be likely to bring the country the maximum return possible within Guatemala's limitations of size and raw materials. It was concluded that cattle-raising, the processing of meat, the production of cardamom and wheat, introducing the cultivation of barley and soybeans, logging and wood processing, thread and textile manufacture, fishing and tourism offered the most favorable possibilities.

Beginning in 1958 the five Central American republics have progressively integrated their economies, within the general political framework provided by the Organization of Central American States (ODECA). The Central American Common Market (CACM) reached regional scope in 1963 when Costa Rica ratified the General Treaty of Central American Integration.

Policy within CACM is decided upon by an Economic Council made up of the Ministers of Economy of the member states. It is carried out by an Executive Commission of experts and a permanent secretariat with its seas in Guatemala. Other organs which have been formed to date include the Central American Bank for Economic Integration; a Central American Commission for Industrial Coordination, a Central American Clearing House and others.

It may be said that CACM to date has been very successful. By mid-1966 internal trade was freed on 98% of the scheduled items, and there was a common regional tariff on 85% of the goods imported into the area. Since 1960 intraregional trade has increased at an annual rate of 32%, reaching a total in 1965 of over $128,000,000.

Plans for the future include a common customs administration, a common currency and a common passport, thus providing for the free movement of all the factors of production.

The only aspect of the original plans of CACM that has been a failure is the idea of forming regional industries which would then be granted a monopoly position within the common market. Only one such industry was authorized and in operation by the end of 1966. Disappointment over this failure, however, is far from universal, as many believe that were Central American industrialization to be predicted upon a series of such industries, the result would be monopolistic, high-cost its production resulting in decapitalization of the region, rather than its more rapid development.

B. Justification of the Project

It is not possible to build a new plant or expand an existing one unless capital is available for a sufficient length of time to permit the new plant and equipment to produce the income necessary to repay the capital.

Most expansion currently taking place is being financed out of the retained earnings of existing enterprises or out of such equity capital as can be mobilized locally. Previous governments have maintained a cool attitude toward foreign investors and Guatemala has suffered from this fact. The Central American Bank for Economic Integration (CABEI) has authorized about US$8.0 million for "regional" industrial projects in Guatemala over the past five years. In addition, the Guatemalan public development bank, INFOP, has been granted a US$500,000 credit by CABEI.

INFOP, has not thus far proved a viable industrial development financial institution. The largest part of its activities have been in agriculture. At the end of 1966, it had a portfolio of 472 loans totalling Q$6,610,118 of which about Q$4.3 million was in agriculture and livestock loans. At that time, INFOP had 43 industrial loans totalling about Q$2.0 million. While INFOP is authorized to make long-term industrial loans it presently has no funds other than the US$500,000 CABEI credit which has not yet been signed.

The Inter-American Development Bank made several loans directly to private industrial enterprises in Guatemala in the early 1960's. However, present lending policies of the IDB (Guarantees are now required on private loans) indicate that IDB will not be a factor in the Guatemalan industrial capital market in the future.

Export Import Bank signed no private project loans in Guatemala in 1964, 1965 or 1966. A 1959 US$5.0 Exim Credit to the Central Bank for relending was little used and subsequently cancelled. We believe this lack of interest was due to the prevailing investment climate and the lack of promotion efforts by the commercial banks.

Data on terms of supplier credits is not available. The project committee visited with the local representative of a large U.S. equipment manufacturer. He explained that most of his sales of heavy equipment were on time contracts financed by the home office. The terms were generally held to less than three years (and never more than 5 years) although the useful life of the equipment might be two or three times as great. In addition his down payment requirements run about 1/3. While the terms of trade may vary from industry to industry, we believe the foregoing to be representative of supplier credits currently available in Guatemala.

Several years ago the government passed a law requiring certain industries receiving duty free import privileges to contribute 10% of what they would otherwise pay as duty to the capital of a new Industrial Bank. In 1966 the basic statute for this bank was issued although the bank is not yet operating. Despite its name this bank will be operated as a commercial and mortgage bank under the banking laws and not as a development bank under the financiera laws. This bank will take deposits from the public and probably do business much as any other commercial bank.

The commercial banks of Guatemala are authorized to lend money at terms of up to 3 years. Mortgage banks are permitted to make real estate mortgage loans for up to 25 years. Such mortgage loans as commercial banks make are largely in the form of 8% government guaranteed mortgage participation certificates and consequently are quite marketable should the commercial banks feel a liquidity squeeze. Unlike the U.S. commercial banks the Guatemalan banks have not felt the need to make an appreciable number of term loans. They can and do use all of their loanable funds in their short-term commercial and crop credit operations. In March of 1966, the commercial banks had outstanding about Q18 million in loans to industry out of a total loan portfolio of about Q$142 million. While these loans are identified as industrial loans because the borrowers are industries, they primarily consist of short-term inventory and sales financing loans commonly associated with commercial banking.

Insurance companies are not a factor in the industrial capital market because the regulations and policies governing them restrict their investment activities to government securities and real estate mortgages.

It is very difficult to estimate the size of the market for medium and long-term industrial loans. The statistics of the last few years even if available would be unreliable because of the poor investment climate prevailing at that time. Annex VII contains a list of projects that the sponsors are considering for the financiera. We believe the market is considerably larger than this financiera will be able to service at this time, but this market will not walk in the door. The promotional ability of the financiera will be the most important factor determining how well and how quickly the AID loan is used.

One should not overlook the role of this financiera in mobilizing local capital for industrial development. Since it is bad business as well as poor economics for a financiera to finance 100% of the costs of a project, the owners of the borrowing firm will have to put in more capital of their own. Furthermore, the new capacity created by the subloan will give rise to increased work-

ing capital needs thereby attracting more commercial bank funds to industry. We think it reasonable to expect that a sub-loan will on the average mobilize an equal amount of local capital.

Finally, we should point out that this project brings to Guatemala an institution authorized to underwrite and deal in securities as well as to guarantee the obligations of others. These two powers, underwriting and guaranteeing, are essential to the formation of an investment banking business and a capital market. The largest contribution of this financiera may well prove to be its role in building a Guatemalan capital market.

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## III. FINANCIAL ANALYSIS

### A. Amount of the Loan

The project committee recommends a loan of US$5.0 million because this is our best estimate of the amount of U.S. dollar financing that the financiera will be able to commit to sub-loans during the first two years of operations. As has been pointed out in the economic aspects section of this paper, we believe the market for medium and long-term industrial loans in Guatemala is larger than this, but we are talking here of a more limited market; i.e. goods and services of U.S. source and origin. In addition, it is our view that a new institution will require time for its own development and seasoning before it gains the administrative capacity to serve the full market.

Experience has shown that the availability of funds does not of itself result in the creation of investments. A successful financiera must participate in the promotion and development of the projects it finances both by bringing attractive opportunities to the attention of those capable of undertaking them, and by assisting clients with their financial and other business planning. The failure of Guatemalan businessmen to use the major portion of a subsequently reduced US$5.0 million credit from the Export Import Bank in the early 1960's is probably due, in part at least, to the failure of the Guatemalan commercial banks to promote projects.

The history of loan committment in the other Central American financieras confirms our judgement that US$5.0 million will meet two years needs of this financiera. The most active financiera, Financiera Hondureña, committed this sum somewhat sooner, but special circumstances prevailed in Honduras which will not apply here; i.e.; US$1,250 thousand was authorized for local costs financing and a large bond underwriting utilized US$1.5 million in a single transaction. On the other hand, almost three years after the loan was authorized, the financiera in El Salvador has yet to commit its full five million. There are a number of reasons for this relatively slow committment all of which are attributable to special circumstances applicable to the Salvador Financiera. The other three AID supported Central American financieras (DISA, COFISA and CNI) committed or will commit about US$5.0 million in AID funds in the course of two operating years.

It should be pointed out, that we have been talking about committing funds to sub-projects and not about disbursements. While we expect expect US$5.0 million to be committed to subloans in two years, we have allowed three years for the disubrsement of these funds.

US$5.0 million of AID funds on the terms proposed will supply a strong capital base for the financiera; however, future borrowing will be necessary in order to permit growth and indeed, after the five year AID grace period, in order to prevent contraction. An application for a second AID loan on somewhat harder terms is likely to be submitted if operations prove successful

B. Foreign Exchange Risk

Unlike most other financieras AID has assisted, this financiera will probably be carrying the full risk inherent in borrowing in one currency and lending in another. This is a serious burden for a financial institution to assume and it both effects the prospects of repayment of the AID loan and threatens the viability of the institution. The risk does not seem as great in Guatemala as it would be in some other countries. The exchange rate of the dollar and quetzal has remained at one to one for about 40 years. Nontheless, a twenty year declining exposure, such as will result from this loan, is a serious risk when dealing in the currencies of any two countries.

Financieras commonly pass this risk along to their sub-borrowers by requiring them to execute dollar denominated obligations. We have been advised by lawyers, bankers and businessmen that this is not legally possible in Guatemala. We hope to persuade the Government or Central Bank to accept the risk, but discussions thus far lead us to believe it is unlikely that either will take it. We have consequently provided for the maintenance of a growing reserve in order to enable the financiera to continue to service its debt in the event of a devaluation of the quetzal. This reserve will grow at the rate of 3% of foreign long-term debt outstanding per annum until it equals 20% of long-term foreign debt outstanding (probably during the eighth year of the loan). This reserve would offset a small devaluation in the middle years but a major one would require A.I.D. to stretch out the terms of the loan or see the institution collapse. If there were such an insolvency, the A.I.D. loan would take preference over the stockholders' interest in the financiera and the bad debt and legal reserves would provide an additional cushion. The reserve will be maintained at the 20% level and no dividends will be permitted until it is restored to the 20% level should there be a charge against the reserve due to losses resulting from currency devaluation.

The reserve is not a completely satisfactory solution to this problem, but it appears to be the only one. In 1964, A.I.D. authorized a similar loan to a private financiera in Guatemala and met this problem by requiring a reserve. The El Salvadoran financiera also has only a reserve to offset this risk.

FIASA will be required to keep a portion of its portfolio equal to the amount of the foreign exchange reserve invested in liquid assets. The term "liquid assets" shall mean cash, bank deposits, government bonds, sub-loans or investment paper (or installments thereof) maturing in less than one year, and such readily marketable securities as may be approved by A.I.D.

C. Profitability

The financial projections appearing in Annex II were prepared by the project committee by questioning and revising projections submitted by the sponsors. We believe they are, on balance, realistic. These figures indicate that with a 1½% A.I.D. interest rate for eight (8) years and a 2½% interest rate thereafter and a five-year grace period the financiera will be able to pay a dividend of 10% of stated capital after four years of operations. This is not a particularly attractive investment.

Because of the foreign exchange reserve mentioned in the last section, the earnings per share do not appear in any way excessive. Should these reserve funds become available as earnings it would increase the profitability by as much as $150,000 per year. If the Government or Central Bank can be persuaded to assume the foreign exchange risk, A.I.D. will increase the interest rate on the loan to 5% thus giving the financiera an interest spread of 5 to 7 (or 6%) on the A.I.D. funds it has available for re-lending. This would not significantly affect the projected results since a reserve contribution of $150,000 after the second year would be replaced by a tax deductible interest expense of $175,000 (3.5% of $5.0 million equals $175,000). On the other hand, if the Monetary Board imposes a legal ceiling on financiera lending of less than 12% or if market rates fall below that level, the financiera will be unduly squeezed. AID should be prepared to adjust its lending rate accordingly to maintain an interest spread of at least 6%. It should be noted that a 6% spread on a 5.0 million loan has not resulted in unconscionable earnings in any of the other Central American financieras. Indeed, three received larger spreads on their first AID loans, one got 6%, and one, DISA, got 5%. While the spreads may seem high if one compares them to commercial bank spreads in the U.S., the comparison is inappropriate because the financieras have much smaller loan portfolios and appraisal banking is inherently a more costly business

This financiera will be initially capitalized at an AID loan to equity capital ratio of 4 to 1. Four of the five other Central American financieras were originally capitalized at 5 to 1, but in some cases efforts were made to bring these to an overall 4 to 1 as a condition of second AID loans. We think this financiera is viable with a 4 to 1 ratio, and, since lower ratios make it more attractive to other lenders, we believe it is desirable to begin with this ratio. A more pressing reason exists for insisting on a 4 to 1 debt equity ratio in this case. Article 9 of the financiera law (Annex IV) requires that a financiera keep on deposit with the Bank of Guatemala a legal reserve equal to 5% of its obligations for borrowed money. We understand this reserve (which we project at Q$250,000) may be invested in government securities yielding 5%, however, these funds are effectively removed from the lending portfolio and we think the financiera will need at least Q$1.0 million in local currency in order to place the U.S. $5.0 million AID loan.

D. Prospects for Repayment

This loan is made solely on the credit of the privately owned borrower. There is no government guaranty and none was requested because the project committee believes that a Government guaranty of repayment would inevitably lead to undesireable government involvement in the affairs of the borrower. However, we hope government can be persuaded to accept the foreign exchange risk.

The credit worthiness of a financial institution turns upon the quality of its loan and investment protfolio which is the product of its operating policies and its management. We believe the laws and policies governing this financiera to be prudent, we are favorably impressed with the sponsors, and we shall require the appointment of a sound manager as a condition precedent to disbursement of the loan. Applying these criteria we believe the prospects for repayment to be reasonable. The present balance of payments and debt service requirements of Guatemala (see Annex III) indicate that the Guatemalan economy will have no difficulty servicing this additional foreign debt. The availability of the two-step loan to the Government eases the debt service requirement.

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## IV EFFECT ON U.S. ECONOMY

This loan is wholly for the procurement of U. S. goods and services. It is expected that the loan will generate additional U. S. exports to Guatemala not only through commodities directly financed by AID, but also by increasing the future non-AID-financed sales of U. S. firms through reorders, spare parts, and the purchase of compatible equipment.

AID will reserve the right to require that sub-loans to cotton textile firms be submitted to AID for prior approval or disapproval if it sees a significant number of cotton textile sub-loans in the monthly reports submitted by the financiers. If it should become necessary to require such advance approval, AID will send the proposals to Commerce and other interested U. S. Government agencies for clearance.

While we do not expect a significant number of agricultural production sub-loans, the loan agreement or implementation letter will provide that no AID funds may be used for the production of non-food surplus commodities or food surplus commodities for export.

V. IMPLEMENTATION PLAN

It is hoped that this loan will be authorized by June 15, 1967. We anticipate no difficulties with the loan negotiation and it seems reasonable to expect signing of the loan by August 1, 1967. Conditions precedent will require more than the usual three months because the financiera must employ a manager and a staff and establish its operating routines and procedures. We do not think it realistic to expect the financiera to begin operations until 1968 and therefore we are recommending that December 31, 1967, be the target date for completion of the conditions precedent to disbursement. In our judgment it would not be possible to shorten the period of time between authorization and the meeting of the conditions precedent by delaying authorization because the necessary organization work would not be done nor expenses incurred if it were not for the assurance of the A.I.D. loan.

The A.I.D. loan will be disbursed by the letter of commitment method with letters issued to the U.S. bank or banks of the Borrower's choice.

A.I.D. experience has revealed that the small business notification requirement as applied to intermediate credit institutions should be modified to provide for waiver in cases where emergencies exist or where the sub-borrower has already decided from whom he will purchase his equipment. LA/GT will prepare an appropriate waiver for Guatemala.

Sub-loans requiring A.I.D. approval should be passed upon by the USAID with guidance in appropriate instances from the lawyers and other technicians assigned to ROCAP. Sub-loan review should be conducted in accordance with guidelines set forth in AIDTO CIRC XA-21 of July 9, 1965, viz, the review should ascertain whether the sub-loan or investment is consistent with the terms of the implementation letter and loan agreement and whether the project is in any way contrary to the interest of the U. S. Government.

Reporting Requirements

The Borrower should report monthly, quarterly, and annually to AID.

The monthly reports should describe the sub-loans and investments authorized (those approved by the financiera), the sub-loans signed, and the sub-loans previously authorized that were cancelled during the month. As to sub-loans authorized the report should specify the amount, the purpose of the loan, the name of the borrower, and whether it is planned to use AID funds. The other two categories (signings and cancellations) should simply identify the sub-loans.

The quarterly reports should contain all sub-loans and investments from inception to the end of the quarter. It too should state amount, borrower, use of funds, and source of funds. In addition the quarterly report should indicate the number of sub-loans, if any, in default (sub-loans in which payments are more than 30 days slow).

The annual reports should consist of a profit and loss statement, a balance sheet, and a reconciliation of earned surplus, all certified by independent accountants.

CHECK LIST OF STATUTORY CRITERIA

(Alliance for Progress)

GUATEMALA - FINANCIERA INDUSTRIAL Y AGROPECCUARIA, S.A.(FIASA)

In the right-hand margin, summarize for each item the information or conclusion requested. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1966.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1967.

1. FAA §.102. Precautions that have been or are being taken to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes) or any other purpose not essential to the country's long-range economic development.

1. Adequate control will be exercised to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes, or any other purpose not essential to the country's long-range economic development. The loan will be disbursed to the FIASA as evidence is received showing the making of sub-loans.

2. FAA §.102. Information on measures taken to utilize United States Government excess personal property in lieu of the procurement of new items.

2. Provision will be made in the Loan Agreement to so procure U.S. excess property in lieu of new items whenever possible.

3. FAA §.102. Information whether the country permits, or fails to take adequate measures to prevent, the damage or destruction by mob action of United States property.

3. The Government of Guatemala has not permitted, and has not failed to take adequate measures to prevent damage to or destruction to U.S. property within Guatemala.

4. FAA §.201(d). Information and conclusion on legality (under laws of country and U. S.) and reasonableness of lending and relending terms of the loan.

4. Loan funds are to be loaned at rates of interest which are not unreasonable or illegal for the Borrower and are within the limits established by this Section.

5. FAA §.251(a). Manner in which loan will promote country's economic development and contribute to the welfare of its people.

5. This loan-financed project will promote the country's economic development and contribute to the welfare of its people by assisting in the strengthening of a private industrial development institution which is effectively stimulating new and expanded private enterprises which will help raise the the average level of living in Guatemala.

6. FAA §.251(b)(1). Extent to which country is adhering to the principles of the Act of Bogota and Charter of Punta del Este and is showing a responsiveness to the vital economic, political, and social concerns of its people, and extent to which country has demonstrated a clear determination to take effective self-help measures.

6. The GOG is adhering to the principles of the Act of Bogota and Charter of Punta del Este and is showing a responsiveness to the vital economic, political and social concerns of its people. It has demonstrated a clear determination to take effective self-help measures;i.e., in national planning, tax administrations reform, agrarian reform and social security programs.

7. FAA §.251(b)(2). Information and conclusion on activity's economic and technical soundness.

7. This activity has been found economically and technically sound.

8. FAA §.251(b)(3). Information and conclusion on activity's relationship to and consistency with other development activities, and its contribution to realizable long-range objectives.

8. This activity has a basic significance for the development activities of the GOG, and will play an essential part in the realization of its long-range objectives.

9. FAA §.251(b)(4). Information and conclusion on possible effects on U. S. economy, with special reference to areas of substantial labor surplus.

9. This activity will have certain beneficial direct effects on the U.S. economy, and no significant competition with U.S. enterprise with result directly from it.

10. FAA §.251(b)(5). Information and conclusion on the degree to which the country is making progress toward respect for the rule of law, freedom of expression and of the press, and recognition of the importance of individual freedom, initiative, and private enterprise.

10. The GOG has been making favorable process toward improving personal freedom and has passed several laws in recent years favorable to the private enterprise sector.

11. FAA §.251(b)(6). Information and conclusion on the degree to which the country is taking steps to improve its climate for private investment.

11. The present GOG strongly supports this project which is chiefly concerned with private investment.

12. FAA §.251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

12. The sub-borrowers financed under this loan will make an important contribution to the achievement of self-sustaining growth in Guatemala.

13. FAA §.251(b)(8). Information and conclusion on the extent to which the activity will contribute to the economic and political integration of Latin America.

13. Many of the sub-borrowers financed under this loan will sell their products to the members of the Central American Common Market. Also raw materials will be purchased in certain cases from other Central American Common Market countries. This should lead to increased trade between the Central American Countries and contribute to the economic and political integration of Latin America.

14. FAA Section 251(b). Information and conclusion on availability of financing from other Free-World sources, including private sources within the United States.

14. Financing for this activity is not available from other Free-World sources, including private sources within the United States, on feasible terms.

15. FAA Section 251(b). Information and conclusion on capacity of the country to repay the loan.

15. The terms (whether or not the two step option is elected by the GOG) are such that the Borrower or the GOG can meet their obligations.(See Sec. III-D)

16. FAA §.251(b). Information and conclusion on country's efforts to repatriate capital invested in other countries by its own citizens.

16. The GOG is making reasonable efforts to encourage repatriation of capital invested in other countries by its own citizens.

17. FAA §.251(b). Information and conclusion on reasonable prospects of repayment.

17. There are reasonable prospects that the loan will be repaid.

18. FAA §.251(e). Information and conclusion on availability of an application together with sufficient information and assurances to indicate reasonably that funds will be used in an economically and technically sound manner.

18. An application has been received for this loan, which when combined with additional data obtained, gives sufficient information and assurances to indicate reasonably that the funds will be used in an economically and technically sound manner.

19. FAA §.251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

19. NOT APPLICABLE.

20. FAA §.251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its review of national development activities.

20. This activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its review of national development activities.

21. FAA §.252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

21. This loan is being made directly to a private intermediate credit institution for sub-loans entirely to the private sector.

22. FAA §.281. Extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the developing countries, through the encouragement of democratic private and local governmental institutions.

22. Since this loan is to a private institution for the purpose of aiding the private sector, it will represent a strong contribution to the objective of assuring maximum participation in the task of economic development on the part of the people of Guatemala.

23. FAA §.601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

23. This project should encourage efforts of the GOG to increase the flow of international trade, foster private initiative and competition, and improve the technical efficiency of agriculture, industry and commerce.

24. FAA §.601(b). Information and conclusion on how the loan will encourage U. S. private trade and investment abroad and how it will encourage private U. S. participation in foreign assistance programs (including use of private trade channels and the services of U. S. private enterprise).

25. FAA §.601(d). Conclusion and supporting information on compliance with the Congressional policy that engineering and professional services of U. S. firms and their affiliates are to be used in connection with capital projects to the maximum extent consistent with the national interest.

26. FAA §.602. Information and conclusions whether loan will permit American small business to participate equitably in the furnishing of goods and services financed by it.

27. FAA §.604(a); App.§.108. Compliance with restriction of commodity procurement to U. S. except as otherwise determined by the President and subject to statutory reporting requirements.

28. FAA §.604(b). Compliance with bulk commodity procurement restriction to prices no higher than the market price prevailing in the U. S. at time of purchase.

29. FAA §.604(d). Compliance with requirement that marine insurance be purchased on commodities if the host country discriminates, and that such insurance be placed in the U. S.

30. FAA §.604(e). Compliance with requirement that funds not be used for procurement of any agricultural commodity or product thereof outside the United States when the domestic price of such commodity is less than parity.

31. FAA §.611(a)(1). Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost of the assistance to the United States.

32. FAA §.611(a)(2). Necessary legislative action required within recipient country and basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan.

24. Private sector participation in this project will be substantial as all of the loan funds will be used for subloans to finance procurement of goods and services in the United States. Some of the sub-borrowers may represent U.S. interests, and several private U.S. commercial banks will purchase equity in the Borrower.

25. None of the proceeds of this loan will be used for technical assistance.

26. A.I.D.'s regulations regarding small business notification for commodities procured will be followed.

27. Equipment, materials, and services (except marine insurance) financed under the loan shall have their origin in and be procured from the United States.

28. Any commodities financed by the loan and purchased in bulk will be purchased at prices no higher than prevailing U.S. market prices.

29. If the Host Country discriminates against any U.S. marine insurance company, any commodities purchased with loan funds shall be insured against marine risk with a U.S. company.

30. Will be complied with.

31. Necessary financial and other plans have been completed, and a reasonably firm estimate of the cost to the United States of the activity to be financed has been obtained.

32. No legislation is required.

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| 33. FAA §.611(b); App.§.101. If water or water-related land resource construction project or program, information and conclusion on benefit-cost computation. | 33. Not applicable. |
| 34. FAA §.611(c). Compliance with requirement that contracts for construction be let on competitive basis to maximum extent practicable. | 34. Not applicable. |
| 35. FAA §.612(b) and 636(h). Appropriate steps that have been taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U. S. are utilized to meet the cost of contractual and other services. | 35. The Borrower is contributing all the local currency needed to meet the local costs of the project. The United States owns no local currency that could be used for this project. |
| 36. FAA §.619. Compliance with requirement that assistance to newly independent countries be furnished through multilateral organizations or plans to maximum extent appropriate. | 36. Not applicable |
| 37. FAA §.620(a); App.§.107(a) and (b). Compliance with prohibitions against assistance to Cuba and any country (a) which furnishes assistance to Cuba or failed to take appropriate steps by February 14, 1964, to prevent ships or aircraft under its registry from carrying equipment, materials, or supplies from or to Cuba; or (b) which sells, furnishes, or permits any ships under its registry from carrying items of primary strategic significance, or items of economic assistance to Cuba. | 37. No assistance will be furnished under this loan to the present Government of Cuba, nor does the GOG furnish assistance to the present Government of Cuba. The GOG has taken appropriate steps to prevent ships or aircraft under its registry from engaging in any Cuba trade. |
| 38. FAA §.620(b). If assistance to the government of a country, existence of determination it is not controlled by the international Communist movement. | 38. Not applicable. |
| 39. FAA §.620(c). If assistance to the government of a country, existence of indebtedness to a U. S. citizen for goods or services furnished or ordered where such citizen has exhausted available legal remedies or where the debt is not denied or contested by such government or the indebtedness arises under an unconditional guaranty given by such government. | 39. Not applicable. |
| 40. FAA §.620(d). If assistance for any productive enterprise which will compete in the U. S. with U. S. enterprise, existence of agreement by the recipient country to prevent export to the U. S. of more than 20% of the enterprise's annual production during the life of the loan. | 40. Not applicable. |

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| 41. FAA §.620(e)(1). If assistance to the government of a country, extent to which it (including government agencies or subdivisions) has, after January 1, 1962, taken steps to repudiate or nullify contracts or taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U. S. citizens or entities beneficially owned by them without taking appropriate steps to discharge its obligations. | 41. Not applicable. |
| 42. FAA §.620(f); App.§.109. Compliance with prohibitions against assistance to any Communist country. | 42. Assistance provided under this loan will not be furnished to any Communist country. |
| 43. FAA §.620(g). Compliance with prohibition against use of assistance to compensate owners for expropriated or nationalized property. | 43. Assistance provided by this loan will not be used to compensate for expropriated or nationalized property. |
| 44. FAA §.620(h). Compliance with regulations and procedures adopted to insure against use of assistance in a manner which, contrary to the best interests of the U. S., promotes or assists the foreign aid projects or activities of the Communist-bloc countries. | 44. Will be complied with. |
| 45. FAA §.620(i). Existence of determination that the country is engaging in or preparing for aggressive military efforts. | 45. The President has not determined that the GOG is engaging in or preparing for aggressive military efforts. |
| 46. FAA §.620(i). Information on representation of the country at any international conference when that representation includes the planning of activities involving insurrection or subversion against the U. S. or countries receiving U. S. assistance. | 46. There is no information to the effect that Guatemala has been represented at any international conference when that representation includes the planning of activities involving insurrection or subversion against the United States or countries receiving U.S. assistance. |
| 47. FAA §.620(k). If construction of productive enterprise where aggregate value of assistance to be furnished by U. S. will exceed $100 million, identification of statutory authority. | 47. Not applicable. |
| 48. FAA §.620(l). Consideration which has been given to denying assistance to the government of a country which after December 31, 1966, has failed to institute the investment guaranty program for the specific risks of inconvertibility and expropriation or confiscation. | 48. Not applicable-bilateral treaty in force. |
| 49. FAA §.620(n); App.107(b) and 116. Compliance with prohibition against assistance to countries which traffic or permit trafficking with North Viet-Nam. | 49. Available information reveals no case of trafficking with North Vietnam. |

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| 50. FAA §.620(o). If country has seized, or imposed any penalty or sanction against, any U. S. fishing vessel on account of its fishing activities in international waters, information on the consideration which has been given to excluding the country from assistance. | 50. Guatemala has not taken the measure mentioned. |
| 51. FAA §.620(q). Existence of default under any Foreign Assistance Act loan to the country. | 51. Guatemala is not in default under any Foreign Assistance Act loan. |
| 52. FAA §.621. Information and conclusion on how the loan in providing technical assistance will utilize to the fullest extent practicable goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs. | 52. Not applicable. |
| 53. App.§.102. Compliance with requirement that payments in excess of $25,000 for architectural and engineering services on any one project be reported to Congress. | 53. Will be complied with. |
| 54. App.§.104. Compliance with bar against funds to pay pensions, etc., for military personnel. | 54. Will be complied with. |
| 55. App.§.106. If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U. S. citizens generally, application which will be made in negotiations of contrary principles as expressed by Congress. | 55. No case is known of attempts to create distinctions in the granting of rights to American citizens. |
| 56. App.§.111. Compliance with existing requirements for security clearance of personnel. | 56. This Section will be complied with. |
| 57. App.§.112. Compliance with requirement for approval of contractors and contract terms for capital projects. | 57. This Section will be complied with. |
| 58. App.§.114. Compliance with bar against use of funds to pay assessments, etc., of U. N. member. | 58. Loan funds will not be used to make any payment to the UN. |
| 59. App.§.115. Compliance with regulations on employment of U. S. and local personnel for funds obligated after April 30, 1964 (Regulation 7). | 59. This Section will be complied with. |
| 60. App.§.401. Compliance with bar against use of funds for publicity or propaganda purposes within U. S. not heretofore authorized by Congress. | 60. Loan funds will not be used for publicity or propaganda purposes within the United States. |

## PRO-FORMA PROJECTION OF EARNINGS AND DISTRIBUTION OF EARNINGS
(Figures in Thousands of Dollars)

| | First Year | Second Year | Third Year | Fourth Year | Fifth Year |
|---|---|---|---|---|---|
| Income | | | | | |
| Interest Income | 110 | 429 | 649 | 704 | 704 |
| Other Income (Avals, etc.) | 5 | 15 | 40 | 45 | 60 |
| Gross Income | 115 | 444 | 689 | 749 | 764 |
| Expenses | | | | | |
| Administrative Expenses | 150 | 150 | 150 | 160 | 165 |
| Interest Expense | 13 | 120 | 170 | 183 | 183 |
| Operating Expenses | $163 | 270 | 320 | 343 | 348 |
| Operating Income (Loss) | (-48) | 174 | 369 | 406 | 416 |
| Less: Reserve for Bad Debts | 30 | 60 | 40 | | |
| Tax Loss Coming Forward | | 78 | | | |
| Taxable Income | -0- | 36 | 329 | 406 | 416 |
| Income Taxes | -0- | 5 | 109 | 142 | 147 |
| After Tax Income | (-78) | 109 | 220 | 264 | 269 |
| Less: | | | | | |
| Reserve for Foreign Exchange Risk | 20 | 80 | 120 | 120 | 120 |
| Net Earnings | (-98) | 29 | 100 | 144 | 149 |
| Dividends Paid | -0- | -0- | -0- | 125 | 125 |
| Cumulative Earned Surplus | (-98) | (-69) | 31 | 50 | 74 |

| | First Year | Second Year | Third Year | Fourth Year | Fifth Year |
|---|---|---|---|---|---|
| **Assumptions** | | | | | |
| 1. Disbursements (millions $) | | | | | |
| a) AID loan | $1.0 | $2.0 | $2.0 | | |
| b) Foreign Bank Lines of Credit (1 year loans) | | 1.0 | 1.0 | $1.0 | $1.0 |
| c) Pay In of Stockholders Funds | .625 | .625 | | | |
| 2. Average Portfolio Size During Year | $1.0 | $3.9 | $5.9 | $6.4 | $6.4 |

3. Average relending rate of 11%.

4. Assumed interest on foreign bank lines of credit is 7%.

5. Assumed earnings on Legal Reserve of 5%.

6. Bad Debt reserve maintained at 2% of average portfolio.

7. Foreign Exchange Reserve is 2% of foreign debt per annum constantly growing.

8. Assumed 90% of funds available will be invested or loaned after year 3.

9. Assumed AID interest rate of 2 1/2% plus 5 year grace period.

10. Assumptions 7 and 9 are no longer valid. An increased foreign exchange reserve contribution to 3% and a corresponding lowering of the interest rate to 1½% for the first eight years were decided upon by the Review Committees. These changes should not significantly affect results.

## PRO-FORMA BALANCE SHEETS
(Thousands of Dollars)

| | End Year 1 | End Year 2 | End Year 3 | End Year 4 | End Year 5 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and Liquid Assets | 27 | 226 | 490 | 662 | 811 |
| Sub Loans and Investments | 1500 | 5000 | 7000 | 7000 | 7000 |
| Govt. Bonds-Legal Reserve | 50 | 150 | 250 | 250 | 250 |
| Total Assets | 1577 | 5376 | 7740 | 7912 | 8061 |
| Liabilities and Net Worth | | | | | |
| Liabilities | | | | | |
| AID Loan Payable | 1000 | 3000 | 5000 | 5000 | 5000 |
| Bank Loan Payable | | 1000 | 1000 | 1000 | 1000 |
| Taxes Payable | | 5 | 109 | 142 | 147 |
| Total Liabilities | 1000 | 4005 | 6109 | 6142 | 6147 |
| Capital, Reserves, and Surplus | | | | | |
| Capital Stock | 625 | 1250 | 1250 | 1250 | 1250 |
| Bad Debt Reserve | 30 | 90 | 130 | 130 | 130 |
| Exchange Risk Reserve | 20 | 100 | 220 | 340 | 460 |
| Earned Surplus | (-98) | (-69) | 31 | 50 | 74 |
| Sub-Total | 577 | 1371 | 1631 | 1770 | 1914 |
| Total Liabilities and Net Worth | 1577 | 5376 | 7740 | 7912 | 8061 |

| | First Year | Second Year | Third Year | Fourth Year | Fifth Year |
|---|---|---|---|---|---|
| Rate of Return to Stockholders (net earnings over capital stock) | (-7.8%) | 2.3% | 8% | 11.5% | 11.9% |

## ADMINISTRATIVE EXPENSES SCHEDULE
(First Year)

(In U.S. Dollars)

| | | | |
|---|---|---|---|
| 1. | Personnel Expenses | | |
| | a) Director Fees | $12,000 | |
| | b) General Manager Salary | 20,000 | |
| | c) Promotion Department | 11,500 | |
| | d) Technical and Engineering Department | 16,000 | |
| | e) Credit Department | 10,000 | |
| | f) General Administrator | 9,000 | |
| | g) Accounting | 9,000 | |
| | h) Secretarial | 6,000 | |
| | i) Bonus and Social Security | 10,000 | 103,500 |
| 2. | Legal Expenses | | 5,000 |
| 3. | General Office Expenses | | 7,500 |
| 4. | Rent | | 6,000 |
| 5. | Audit Expense | | 6,000 |
| 6. | Travel Expense | | 6,000 |
| 7. | Furniture and Fixtures | | 7,000 |
| 8. | Contingencies | | 9,000 |
| | | | $150,000 |

| AID 1020-18 (4-65) | DATA CURRENT AS OF: | COOPERATING COUNTRY | SECURITY CLASSIFICATION | BALANCE OF PAYMENTS (In Millions of U.S. Dollar Equivalents) | C-4 |
|---|---|---|---|---|---|
| C-4 | October 19, 1966 | GUATEMALA | UNCLASSIFIED | | |

All figures converted at $1 = Q1 unless otherwise noted

| ITEM | LINE NO. | CALENDAR YEARS: ACTUAL (1) 1964 1/ | ACTUAL (2) 1965 1/ | ESTIMATED (3) 1966 2/ | PROJECTED (4) 1967 3/ | PROJECTED (5) 1968 3/ |
|---|---|---|---|---|---|---|
| A. BALANCE ON GOODS AND SERVICES | A | - 56.8 | - 56.0 | - 36.6 | - 53.0 | - 50.0 |
| 1. GOODS: EXPORTS, f.o.b. | 1a | 165.2 | 192.4 | 231.3 | 210.0 | 215.0 |
| IMPORTS, f.o.b. (-) | 1b | -185.7 | -214.0 | -222.6 | 220.0 | 230.0 |
| NONMONETARY GOLD | 2 | 0 | 0 | 0 | | |
| TRADE BALANCE | A(1) | - 20.5 | - 21.6 | + 8.7 | - 10.0 | - 15.0 |
| 2. SERVICES: FREIGHT AND INSURANCE | 3 | - 19.3 | - 17.8 | - 20.0 | - 22.0 | - 24.0 |
| OTHER TRANSPORTATION | 4 | 0 | 0 | 0 | 0 | |
| TRAVEL | 5 | - 7.5 | - 10.6 | - 13.5 | - 15.0 | - 10.0 |
| INVESTMENT INCOME | 6 | - 17.4 | - 17.7 | - 20.8 | - 22.0 | - 22.0 |
| GOVERNMENT, n.i.e. | 7 | 4.7 | 4.0 | 4.0 | 6.0 | 4.0 |
| | 7a | | | | | |
| OTHER SERVICES | 8 | 3.3 | 7.7 | 5.0 | 10.0 | 7.0 |
| TOTAL SERVICES, NET | A(2) | - 36.3 | - 34.4 | - 45.3 | - 43.0 | - 45.0 |
| B. TRANSFER PAYMENTS, NET | B | 6.9 | 6.1 | 8.6 | 9.6 | 7.8 |
| 1. PRIVATE | 9 | 4.4 | 2.6 | 4.6 | 4.4 | 2.8 |
| P.L. 480 Title II | 9a | 1.6 | 1.1 | 1.0 | .9 | .8 |
| | 9b | 2.8 | 1.5 | 3.6 | 3.5 | 2.0 |
| 2. CENTRAL GOVERNMENT | 10 | 2.5 | 3.5 | 4.0 | 5.2 | 5.0 |
| | 10a | 2.1 | 3.0 | 3.5 | 4.2 | 4.5 |
| | 10b | 2.1 | 2.3 | 1.8 | 1.8 | 1.5 |
| | 10c | 0 | 0 | 0 | 0 | 0 |
| | 10d | 0 | 0 | 0 | 0 | 0 |
| | 10e | - | .2 | 2.7 | 3.0 | 2.9 |
| | 10f | | .5 | .5 | .5 | .5 |
| | 10g | .5 | .5 | .5 | .5 | .5 |
| | 10h | | | | | |
| | C | 48.5 | 53.6 | 54.6 | 43.6 | 42.2 |
| | D | 23.3 | 24.1 | 21.4 | 16.8 | 20.0 |
| | E | 2 | 1.5 | 8.0 | 4.0 | |
| | F | | | | | |
| | G | | | | | |
| | H | | | | | |
| | U | 23.0 | 25.8 | 25.5 | 24.0 | 22.2 |

| ITEM | LINE NO. | CALENDAR YEARS: ACTUAL (1) 1964 | ACTUAL (2) 1965 | ESTIMATED (3) 1966 | PROJECTED (4) 1967 | PROJECTED (5) 1968 |
|---|---|---|---|---|---|---|
| NONMONETARY SECTORS CONTINUED — 3. CENTRAL GOVERNMENT, NET | 15 | - 0.7 | (013)12.2 | 2.1 | 23.0 | 20.1 |
| LOANS RECEIVED | 15a | 10.5 | " 27.2 | 29.0 | 40.1 | 39.5 |
| U.S., TOTAL | 15b | 3.4 | " 4.3 | 4.6 | 10.6 | 9.5 |
| A.I.D. DLF | 15c | 1.8 | " 2.1 | 1.3 | 2.9 | 5.0 |
| P.L. 480 - Title I | 15d | 0 | " 0 | 0 | 0 | |
| P.L. 480 - Title IV | 15e | 0 | " 0 | 0 | 0 | |
| EXIM | 15f | 1.6 | " 2.2 | 3.3 | 7.7 | 4.5 |
| OTHER, TOTAL | 15g | 7.1 | " 22.9 | 24.4 | 29.5 | 30. |
| IDB | 15h | 2.1 | " 4.6 | .9 | 5.4 | 7.5 |
| CABEI | 15i | 0 | " .7 | 0 | 3.7 | 3.0 |
| IBRD | 15j | | | | 5.4 | 5.0 |
| Private Banks | 15k | 5.0 | 17.6 | 23.5 | 15.0 | 15.0 |
| | 15l | | | | | |
| LOAN REPAYMENTS | 15m | 11.2 | " 14.9 | 26.9 | 17.1 | 19.4 |
| U.S., TOTAL | 15n | 1.2 | " 1.6 | 3.4 | 3.1 | 2.3 |
| DLF | 15o | 0 | " .3 | .6 | .8 | .8 |
| EXIM | 15p | 1.2 | " 1.3 | 2.8 | 2.3 | 1.5 |
| | 15q | | | | | |
| OTHER, TOTAL | 15r | 10.0 | " 13.3 | 23.5 | 14.0 | 17.1 |
| IBRD | 15s | 1.4 | " 1.5 | 1.6 | 1.7 | 1.8 |
| IDB | 15t | .3 | " .5 | .3 | .3 | .3 |
| Private Banks | 15u | 8.3 | " 11.4 | 21.6 | 12.0 | 15.0 |
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| AID 1020 (7-64) | 1. DATA CURRENT AS OF | 2. COOPERATING COUNTRY | SECURITY CLASSIFICATION | | |
|---|---|---|---|---|---|
| | October 19, 1966 | GUATEMALA | UNCLASSIFIED | | FOOTNOTES TABLE C-4 |

FOOTNOTES FOR TABLE C-4

1/ Bank of Guatemala data.

2/ Largely based on data just completed (October [illegible], 1966) at the Bank of Guatemala from actuals for first six months and prospects for the remainder of the year.

3/ The projections for 1967 and 1968 are based upon growth rate of about 6 percent annually, probable unfavorable developments in the international coffee markets, and the political and administrative difficulties which will tend to prevent effective curtailment of consumer imports. The foreign exchange component of planned public investment is expected to be obtained by long-term borrowing from international agencies; a determination of the actual amount of such borrowing awaits the elucidation of the GOG public investment program and the reaction of foreign credit sources. It appears reasonable at this time to expect that foreign borrowing by the Central Government will not be below the levels shown if GOG actively pursues its development plans. Long-term private foreign investment, spurred by accelerated public investment outlays, is expected to pick up in 1967 and move to new highs in 1968.

4/ Includes undistributed and re-invested profits of other direct and undirect investments of foreign companies and suppliers' credits officially recorded with the Bank of Guatemala.

GUATEMALA: ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC- AND LONG-TERM PUBLIC [illegible]
INCLUDING UNDISBURSED AS OF JUNE 30, 1966, WITH [illegible] AS OF JULY 1 - [illegible] 1/

Debt-Repayable in Foreign Currency

(In thousands of U.S. dollar equivalents)

| Year | Grand Total: Debt outstanding plus undisbursed January 1 2/ | Grand Total: Payments during period: Amortization | Grand Total: Payments during period: Interest | Grand Total: Payments during period: Total | Private Bank Credits | IBRD Loans | IFC Loans | BCIE Loans | U.S. Government Loans | U.S. Government AID 3/ |
|---|---|---|---|---|---|---|---|---|---|---|
| 1966 | 46,255 | 5,529 | 1,319 | 6,848 | 2,373 | 1,992 | 597 | 6 | 1,128 | 751 |
| 1967 | 46,678 | 4,465 | 1,503 | 5,968 | 495 | 1,993 | 1,086 | 14 | 1,651 | 810 |
| 1968 | 42,213 | 4,264 | 1,545 | 5,810 | 133 | 1,994 | 1,031 | 16 | 1,784 | 852 |
| 1969 | 37,949 | 4,335 | 1,477 | 5,811 | | 1,993 | 972 | 18 | 1,956 | 872 |
| 1970 | 33,615 | 4,338 | 1,318 | 5,655 | | 1,994 | 856 | 20 | 1,836 | 869 |
| 1971 | 29,277 | 2,387 | 1,169 | 3,556 | | | 772 | 21 | 1,841 | 902 |
| 1972 | 26,890 | 3,872 | 1,052 | 4,924 | | | 729 | 23 | 1,767 | 2,405 |
| 1973 | 23,018 | 3,930 | 873 | 4,803 | | | 672 | 25 | 1,693 | 2,413 |
| 1974 | 19,088 | 3,662 | 669 | 4,331 | | | 286 | 27 | 1,620 | 2,[illegible] |
| 1975 | 15,426 | 1,982 | 501 | 2,483 | | | 276 | 29 | 1,546 | 633 |
| 1976 | 13,444 | 1,282 | 453 | 1,735 | | | 265 | 161 | 834 | 474 |
| 1977 | 12,162 | 1,314 | 402 | 1,716 | | | 255 | 160 | 798 | 503 |
| 1978 | 10,847 | 1,113 | 340 | 1,453 | | | 245 | 159 | 701 | 288 |
| 1979 | 9,734 | 863 | 288 | 1,151 | | | 234 | 158 | 678 | 200 |
| 1980 | 8,871 | 863 | 244 | 1,108 | | | 224 | 157 | 455 | 272 |

1/ Includes service on all debt except $11,000,000 revolving credits.
2/ Amount outstanding is as of June 30, 1966; payments are for the entire year.
3/ Interest payments include 3/4 of 1% service charge on loans from the Social Progress Trust Fund of IDB.

Source: Statistics Division, IBRD.

UNCLASSIFIED
ANNEX II, 3 of 3

BEST AVAILABLE COPY

May 26, 1967

MINISTRY OF ECONOMY
(Free Translation)

DECREE LAW NO. 208

ENRIQUE PERALTA AZURDIA

CHIEF OF THE GOVERNMENT OF THE REPUBLIC

CONSIDERING:

That it is a function of the State to promote the economic development of the country, for which it is convenient to issue legal provisions which permit the creation of financial bodies, in order to provide entrepreneurs with the necessary recourses for the establishment of new enterprises and the expansion of existing ones;

CONSIDERING:

That it is necessary to assist the creation of modern credit institutions which complement efficiently the function of commercial and mortgage banks, which have operative limitations for reasons of their very nature;

CONSIDERING:

That through the creation of modern financial institutions a greater investment of the capital at present remaining idle can be stimulated; and that in the same manner savings and investments on the part of the public are stimulated;

CONSIDERING:

That it is advantegeous for all institutions receiving funds from the public to be issued in credit operations to be subject to the same orientation, control and supervision;

CONSIDERING:

That the Monetary Board, through its technical bodies, has worked out, studied and approved a draft law which satisfies the objectives mentioned; and the Guatemalan Bankers Association has given its favorable opinion, contributing suggestions which are the product of the experience of the banks of the system;

THEREFORE:

In the use of the powers conferred upon him by Articles 3 and 27 of the Fundamental letter of Government,

IN COUNCIL OF MINISTERS,

DECREES:

The following:

PRIVATE FINANCE CORPORATION

Article 1: Finance Corporations are banking institutions which act as specialized financial intermediaries in investment banking operations; promoting the creation of productive enterprises through the attraction and channelling of medium and long-term internal and external recourses; invest them in these enterprises (industrial, agricultural or livestock), either directly acquiring shares or participation, or indirectly, granting credits for their organization, expansion, modification, transformation or fusion; provided they promote production development and diversification;

Only the institutions authorized according to this law may operate as finance corporations and use in their denomination, in their business name or in the description of their business, the word "Financiera" (Finance Corporation) or other denominations derived from said term which qualify their activities as being of this kind.

The institutions to which this law refers may not give credits to, or in any other way finance, companies domiciled outside of the countries which make up the Central American Economic Community.

Article 2: Private Finance Corporations should be established as stock companies and shall regulate and develop their objectives, functions and operations in accordance with this law, the banking laws and the general legislation of the Republic insofar as applicable to the, and with the provisions and instructions issued by the Monetary Board and the Superintendency of Banks in the application of such laws and their regulations.

Article 3: For the establishment of Finance Corporations the requirements prescribed in Congressional Decree 315 shall be fulfilled, and for their authorization the procedures indicated by said law for the creation of new banks are to be followed:

In case of doubt with regard to the nature of a Finance Institution, the Superintendency of Banks may make the inspections or investigations it deems proper and may demand, for said purpose, the presentation of books or documents of the person or entity in question.

Article 4: Finance Corporations shall be subject to the jurisdiction of the Monetary Board and to the inspection, intervention and supervision of the Superintendency of Banks, being subject to the provision of Article 51 of the Organic Law of the Bank of Guatemala.

Article 5: Finance Corporations may carry out the following operations which promote the development and diversification of national production:

a) Carry out the organization, modification, expansion, transformation and fusion (merging) of companies.

b) Subscribe to, acquire, hold in portfolio and negotiate shares or participations in any of the enterprises to which the foregoing sub-section refers, provided they are stock companies or companies of limited responsibility.

c) Issue, for their own account, certificates and securities, the purpose of which is to attract resources from the public to finance the active operations contemplated in this law, in accordance with the regulatory provisions issued by the Monetary Board.

d) Place securities issued by third parties and give its guarantee for the payment of capital and interest. The Monetary Board shall indicate in a general manner the conditions under which this kind of guarantee is to be given.

e) Act as trustee;

f) Act as agent and common representative for security holders.

g) Purchase, keep in portfolio, sell and in general operate with public and private securities of the Central American Economic Community.

h) Give medium and long term credits.

i) Make loans with guarantee of documents originating from installment sales operations of goods and chattels, when they refer to enterprises that may be financed by these institutions.

j) Give credits to make initial and basic studies of projects whose investment, of productive nature, is made in the territory of Guatemala.

1) Obtain, after receiving authorization from the Monetary Board, concessions for the exploitation of natural resources for the purpose of transferring them to the enterprises promoted for these ends. The Monetary Board shall establish the term and conditions under which the transfer is to be made.

m) Finance scientific research contributing to the development of new productive activities and, if applicable, obtain the respective patents. The Monetary Board shall establish the maximum limits of investments in this kind of operation, and,

n) Carry out the other financial operations covered within the nature and functions indicated in the first article of this law.

Article 6: In order to safeguard the creditors and obligates of the Finance Corporations, the Monetary Board shall establish, special regimes, of general character, of guarantees for the credits granted and obligations guaranteed by them.

Article 7: The Monetary Board shall establish the maximum rates of interest, commissions and other charges which the Finance Corporations may apply to their acquisition of assets and liabilities (operaciones activas y pasivas). In special cases, when the Monetary Board deems it adviseable, it may authorize the Finance Corporations to contract freely the rates applicable to the acquisition of certain kinds of assets and liabilities (aplicables a determinadas clases de operaciones activas y pasivas) operations.

Article 8: The Monetary Board shall determine the maximum capital actually paid in, which the Finance Corporations must have on becoming established. In no case shall said capital be less than one million quetzales.

Article 9: The Finance Corporations must keep in the Bank of Guatemala a deposit of not less than 5% of the amount of their funded liabilities, thereby being understood the indirect obligations to their debit and excluding contingent liability operations. The Monetary Board may authorize the investment of the deposit in immediately salable securities, as well as, at any time, the raising of the percentage established in this article.

Article 10: The Finance Corporations shall carry out their operations with their own capital and capital reserves and, further, with the resources obtained from:

a) The issuance of the certificates and securities to which subsection c) of Article 5 of this law refers, with the general or specific guarantee of their portfolios;

b) The procurement of credits in the country or abroad. In the latter case, with the prior authorization of the Monetary Board.

c) The placement of stocks, certificates and securities of enterprises;

d) The other financial operations which may be a function of the nature and objectives determined in Article 1 of this law.

Article 11 - Finance Corporations are forbidden:

a) To grant credits maturing in less than three years, save for the provisions of sub-section i) of Article 5 of this law, when it is a question of financing productive work of the companies in which they had direct participation, or whose activities are encumbered in favor of the Finance Corporations.

In these cases of exception, the credits granted shall follow the conditions, requirements and limits which the Monetary Board may establish in a general manner.

b) To give loans for the construction of housing and the acquisition of real property. Excepted are the loans for the acquisition of the real property necessary for the operation of the Companies financed;

c) To open and operate monetary deposits, savings and fixed term accounts;

d) To accept direct obligations and liabilities or for the account of third parties, of any kind, in excess of the amount determined by the Monetary Board, in a general manner and with relation to capital and capital reserves.

e) To give surety bonds (fianzas) and endorsements (avales) beyond the regulatory provisions issued by the Monetary Board;

f) To make loans to one person in amounts which, together exceed 20% of all their obligations towards third parties, excluding sureties and guarantees plus capital and capital reserves.

g) To acquire ownership of more than 25% of the paid-up capital of the companies to which sub-sections a) and b) of Article 5 of this law refer. However, when it is a question of new enterprises established through shares, the Finance corporations may acquire the ownership of shares which represent up to 50% of the paid-up capital of said enterprises, after obtaining the favorable opinion of the Superintendency of Banks, which shall establish the investment conditions and the manner in which the Finance Corporation is to divert itself of the shares until it reaches the above indicated 25% limit.

h) To acquire real property, except that destined to the installation of their offices or agencies and that which they need for the development of investment plans previously approved by the Monetary Board.

i) To exploit for their own account mines, metallurgical plants, commercial or industrial establishments or rustic farms, without prejudice of the authorization to own bonds, obligations, shares or other certificates of said enterprises; unless they receive them in payment of credits or as security of those already granted, in which case they may continue in the exploitation with the authorization of the Monetary Board and without going beyond the terms indicated in Article 14 of this law;

j) To trade for their own account in goods of any kind, without prejudice of carrying out operations of this kind for the account of enterprises promoted or financed by the institution.

Article 12: The issuance of obligations of third parties, in which the Finance Corporations intervene, with or without their guarantee, shall be subject to the following regulations:

I. The issuance should be preceded by a technical study of the activities to be financed by the issuance and a financial study of the issuing company, which shall be made by competent expets in the first case and by an economist or accountant in the second. Further, a balance sheet of the issuing entity shall be formulated, which must be certified by an accountant.

II. The Finance Corporations shall have the necessary powers to verify the financial situation of the issuing entity, as well as the orderliness of the issue and the other data which assure the holders and itself of the efficaciousness of the rights promised in the certificates.

III. The Finance Corporations may not initiate the placement of the issue with the public, hereby being understood the placement carried out on the stock market or in the offices of the banking institution intervening in the issue, or by agents of same, without first fulfilling the following requirements:

a) Making up a prospect, which should be widely distributed. Said prospect shall contain at least all the identifying data of the issuing entity and of the financing company which may intervene in the issue, and, if applicable, gives its guarantee, as well as the latest financial statements of both, certified by an accountant. The original of the prospect shall be authorized under oath, with the signatures of the persons who by law have to

sign the certificates issued, and with the signatures of the manager or legal representative of the Finance Corporation intervening in the issue, even in those cases where its intervention does not mean the giving of guarantees, and the prospect must be officially recorded as an annex to the instrument of issuance.

An extract of the prospect must be published in one of the papers of greatest circulation in the country.

b) Granting of the instrument of issuance.

c) Deposit of certified copy of the instument of issuance and a copy of the printed prospect with the Superintendency of Banks, for recording, if it finds the documentation to be according to law.

d) When the titles are guaranteed with the special lien on property, it will further be necessary to accompany a certificate issued by the Property Register in the case of real property, and by a trustee institution in the other cases, accrediting the actual existence of such guarantees and the orderliness of their establishment.

IV. The placement of the issue with the public cannot be started without first having obtained the authorization of the Superintendency of Banks.

V. The obligations issued with the intervention of Finance Corporations, in the terms of this article, shall be reputed, for all legal effects, authorized to be offered for sale to the public, without requiring, with regard to same, any other additional authorization, or the fulfillment of other administrative formalities or processes.

Article 13: When the Finance Corporations guarantee payment of capital or interest of obligations issued by third parties, they shall also have the following rights and obligations, aside from those which they reserve for themselves in the corresponding agreements:

I. They shall at all times have the right to pay any matured obligations of the Finance Corporation, subrogating themselves in the creditor's rights.

II. They shall also have the right to purchase or amortize the issue in advance, as the case may be, when the issuing company has expressly reserved this right in the instrument of issuance. The purchase or amortization shall be effected by depositing the corresponding amount in a Government Bank, at the disposal of the certificate holders, with the financial institution subrogating itself in the rights and shares of the holders. In this case, the Finance Corporation shall notify the certificate holders through three publications in the term of one

month in the Official Gazette and in another paper of large circulation.

The corresponding shares may be excercised, lacking the respective certificates, by means of certified copy of the instrument of issuance and the deposit vouchers to which the foregoing paragraph refers.

III. They shall have the right to reserve for themselves the appointment of a permanent auditor of the issuing corporation, whose fees shall be paid by same, with the right of suspending the execution of resolutions of the Board of Directors of the issuing Corporation and of suspending the operations which are harmful to the interests of the Finance Corporation guaranteeing the issued obligations.

IV. They shall assume the charge of common representative of the holders of the guaranteed obligations, with the attributes which the instruments of issuance establish and the regulatory provisions issued by the Monetary Board and the law on the subject.

V. In case of lack of payment of the principal or interest of the obligations, they shall be empowered to excercise agains the debtor the right and proper actions, without prejudice of the right of the holders of the obligations to exercise their individual action against the debtor or against the Finance Corporation guaranteeing the issue. Once the Finance Corporation has instituted the action for collection of the debt, any other actions instituted or which may be instituted thereafter by the holders of the obligations, shall be suspended until the proceedings initiated by the Finance Corporation have been resolved, with the holders conserving their rights and actions against the latter. The Finance Corporation may exercise the action according to the provisions of the banking laws or common laws, at their option. The executive title shall be the certified copy of the instrument of issuance and the declaration, certified by the accountant of the Finance Corporation, of the balance debited to the debtor or the titles or coupons of the obligations.

The Finance Corporation shall be obligated to cover the nominal value of the unmatured obligations in circulation and of the earned interest at the time of receiving total payment of the debt or when award is made in its own name of the assets guaranteeing the issue, unless, when making the award in payment, the lien is maintained in favor of the holders of the obligations, in which case the Finance Corporation shall be obligated to continue making the payment for the debt service and to redeem the obligations in circulation at the time the sale is made of the assets which have been awarded to it.

In any case, the obligations guaranteed by the Finance Corporation must be paid by it when they mature.

Article 14: Articles 93 through 95 of the Bank Law, relating to extraordinary assets, are not applicable to Finance Corporations. However, if a Finance Corporation were awarded to receive real property in payment, it should transfer its ownership through sale or any other title, within a term not greater than three years, unless, at its request, the Monetary Board resolves to extend said term up to another two years as maximum. Otherwise application of Article 96 of the Bank Law shall be made.

Article 15: Articles 20 and 89 and sub-sections a), d and f) of Article 91 of the Bank Law shall not be applicable to Finance Corporations.

Article 16: Private or Governmental banking institutions may participate in the promotion, organization, establishment, development and activities of Finance Corporations, under the conditions and percentages determined by the Monetary Board in accordance with this law and the Bank Law.

Article 17: The issuance, purchase and sale of security - certificates or documents obligating Finance Corporations or having their guarantee, are exempt of the stamped paper tax and revenue stamps, when these are liable to such tax payment.

TRANSITORY ARTICLES

Article 18: The enterprises established and authorized prior to the issuance of this law and whose names, objectives and functions give them the charachter of Finance Corporations, should register with the Superintendency of Banks within 30 rom the date on which this law enters into force.

The Superintendency of Banks shall make the corresponding qualification and shall establish a term of ninety days for these enterprises, at their option, to decide whether they adapt their organization and operation to the precepts established in this law or, otherwise, whether they remove from their denomination or firmrame, in their business name or in the description of their business, the word "Financiera" (Finance Corporation) or other denominations derived from said term which qualify their activities as being of this kind.

Chosing the first alternative, which must be advised to the Superintendency of Banks within the term established by said authority, the enterprise in question shall also obligate itself, if applicable, to collect in a term not greater than one year, the necessary capital to complete the minimum indicated in Article 8 of this law. If the affected enterprise choses the second alternative, it should so ad-

vise the Superintendency of Banks within the term established and together with said notice shall present certified copy of the documents proving that it has fulfilled the orders given for such cases by the Superintendency of Banks.

The non-compliance of any of these provisions shall give cause to the imposition of the penalties established in Articles 103, 104, and 105 of the Bank Law.

Article 19: This law shall prevail over any other law or regulation whose provisions are opposed to the same.

Article 20: This law shall enter into force the day following its publication in the Official Gazette.

Issued at the National Palace in Guatemala City, on May 12 of 1964.

LET IT BE PUBLISHED AND OBEYED.

ENRIQUE PERALTA AZURDIA
Chief of the Government of the Republic
Minister of National Defense

The Minister of the Interior
Luis Maximiliano Serrano Cordova

The Minister of Agriculture
Carlos Humberto de León

The Minister of Economy
Carlos Enrique Peralta Méndez

The Minister of Finance and Public Credit
Jorge Lucas Caballeros M.

The Minister of Labor and Social Welfare
Jorge José Salazar Valdes

The Minister of Foreign Affairs
Alberto Herrarte Gonzalez

The Minister of Communications and Public Works
Joaquín Olivares M.

The Minister of Public Education
lando Chinchilla Aguilar

The Minister of Public Health and Social Aid
Alfonso Ponce Archila

[redacted]

EDIFICIO GALERIAS ESPAÑA
Teléfono 66-5-77
GUATEMALA, C. A.



[redacted]

[redacted]

NATIONALITY: Guatemalan

I - STUDIES:

Primary: Lycee Francais, Cairo

High School: Instituto Nacional Central de Varones, Guatemala 1943.

University Studies:

June 1945: Tri-State College, B.S. in Mechanical Engineering.

1947: University of Michigan, Masters in Mechanical-Industrial Engineering.

1957-1964: University of San Carlos de Guatemala, Architectural Studies.

1964: Advanced Management Course, Harvard Graduate Bussines School- INCAE.

II .- COMERCIAL, INDUSTRIAL AND FINANCIAL ACTIVITIES:

1947-1951: Design Departament of Mechanical and Electrical Engineering, Construction of the Roosvelt Hospital.

1951-1954: Copropriator and Manager of Guatex & Co. (Manufacture of Concrete Products).

1955: Promotion of Viviendas, S. A.

1955-1966: Excecutive Director of Viviendas, S. A.

1958: Promotion of Banco Inmobiliario, S. A.

1958-1966: Director of Banco Inmobiliario, S. A.

1958-1966: Director of Constructora Delta, S. A.

1964-1967: Chairman of the Board of Directors of Centro de Procesamiento Electrónico, S. A. (CEPESA).

1966-1967: Contributing to the promotion of a Dominican development bank.
Identification and Promotion of the laboratory.

III.- OTHER ACTIVITIES ANS EXPERIENCES:

1962: Member of the Honor Tribunal of the Colegio de Ingenieros y Arquitectos de Guatemala.

1966-1967: President of the Regional Committee of Managerial Promotion of Instituto Centroamericano de Administración de Empresas, (INCAE).

1965 up to the date: President of the National Accountants Association.

/ase.

UNCLASSIFIED

[redacted]

[redacted], 192[redacted]

P[redacted]nts: [redacted]

M[redacted] Giu[redacted]

Primary and S[redacted]es, Colle[redacted]tes, Congregación Marista

University Studies, [redacted] Laws [redacted] Carlos University.

[redacted]

1947 [redacted] (Printers)

1954 [redacted] Secretary, Presidency of the Republic

[redacted] Ministry of Communications and Public Works, Guatemala.

[redacted]

[redacted] (transportation)

[redacted] S. A. (Construction Machinery).

[redacted] Transportes de Guatemala, S.A. (transportation)

[redacted] Transportes La Patrulla, Ltda. (Transportation)

[redacted] Harineros, S. A. (flour industry)

[redacted] Nacional, Cum Axul, S.A.

[redacted] "La Florida" (egg production)

[redacted]

[redacted] Transportation Association

[redacted] Chamber of Industry of Guatemala.

Director [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted] de Guatemala
- [redacted]
- Instituto de Antropología e Historia de Guatemala

[redacted]

He is a natural Guatemalan as he is the son of Guatemalan parents and is registered as such at the Consulate in New York.

| | |
|---|---|
| 1932 | Primary Education at the American School of the United Fruit Co., Bananera, Izabal, Guatemala |
| 1946 | Bachellors Degree - Escuela Preparatoria, Guatemala City |
| 1946-1951 | California University, Berkeley, California. Graduated as Architect. |
| 1951-1956 | Design Engineer - Convair, Division of General Dynamics, San Diego California. |
| 1956-1958 | He exercised his profession in Guatemala. |
| 1958- to date | First Assistant Manager and then General Manager of CIDEA, Distributors for Chevrolet, Buick, Vauxhall, Bedford and Renault. |
| 1951 | September 30, married to Alicia Arceyuz now de Lowenthal. He has four children under 18. |

PREVIOUS POSITIONS:

President and Director of the Vehicle Distributors Association
Director of Compañía de Seguros Cruz Azul, S. A. (Insurance Company)
Assistant Mayor, Zone 4, Guatemala City
Delegate-Advisor, Chamber of Commerce in meetings of tariffs comparison.
Vice President, Chamber of Commerce

AT PRESENT HE IS:

Director-Manager of CIDEA
Director ex-oficio, Chamber of Commerce
President of the Gremial de Distribuidores de Vehículos (Vehicles Distributors Union) adscribed to the Chamber of Commerce
Director, Vehicles Distributors Association
Director, Compañía Arrendadora de Vehículos Ltda. (Vehicle rentals) being formed.
Director, Rotary Club, Guatemala City

[redacted]

STUDIES:

Bachelors Degree : Instituto Nacional de Varones de Guatemala.

Economist, Public Accountant and Auditor: University of San Carlos.
He has pending his final public examination.

PREVIOUS POSITIONS:

1945 - Together with his father, founded the firm "Canella y Cía, Ltda." of which he is General Manager and owns 50%.

1957 - He organized the firm "Maquinaria y Equipos, Ltda." for the importation and sale of agricultural machinery, of which he is Manager and owns 50%.

1966 - Organized the firm "Inversiones Canella, S.A." of which he is President and General Manager.

Secretary of the Chamber of Commerce of Guatemala
President of the Chamber of Commerce of Guatemala
President of the Feceration of Chambers of Commerce of Central America
President and Director of the Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations.

AT PRESENT HE IS:

General Manager of Canella y Cía. Ltda.
President and Manager of Inversiones Canella, S. A.
Manager of Maquinaria y Equipos, Ltda.
Director of the Chamber of Commerce.
Representative of the Chamber of Commerce before the Permanent Tariffs Commission.
Director of Industria Harinera de Guatemala, S.A. (Flour Industry)
Director of the Empresa Portuaria Nacional de Champerico (Champerico National Port Authority).

# MINUTES

## L.A. CAPITAL ASSISTANCE EXECUTIVE COMMITTEE

April 18, 1967

GUATEMALA - PRIVATE INDUSTRIAL FINANCIERA -IRR (LA-CAEC/P-67/75)

(with Memo to CAEC - LA/CD Comments)

1. A discussion of the subject IRR resulted in a CAEC suggestion that the amount of the loan should probably not exceed $5 million. However, if during the preparation of the loan paper the USAID should determine a larger amount is required, an adequate justification should be presented. This justification should touch not only on the relation between the size of the loan and the expected rate of commitments over a two-year period, but also on the relation of Guatemala's usage to the experience of similar institutions in other Central American countries.

2. Since part of the Bank's operation will entail the extension of agricultural credit for medium and large farms, a departure from straight industrial lending, it is assumed that general guidelines for such lending will be established, e.g., size of farms eligible for credit and what proportion of the Bank's portfolio will be involved in agricultural credit loans. What provisions will be included to assure the small farmer that he too will receive credits? Should we extend credit to farming operations at all, regardless of size? In this regard, the question was raised whether or not the Bank will have sufficient staff to capably administer agricultural as well as industrial credit operations. Perhaps the Bank should have two separate operational units.

3. The Loan Paper should include a discussion of the Bank's proposed operations, including the management and the spread in interest rates between the A.I.D. loan and the Bank's sub-loans.

SUMMARY OF PARTIAL LIST OF INDUSTRIES WHICH COULD BE FINANCED BY FIASA

| | | |
|---|---|---|
| 1. | Food Industry | 14,200,000 |
| 2.- | Mechanic Metal Industry | 10,750,000 |
| 3.- | Wood Industry | 3,600,000 |
| 4.- | Rubber Industry | 700,000 |
| 5.- | Textiles | 24,000,000 |
| 6.- | Paper and paper products | 23,300,000 |
| 7.- | Mineral non-metallic products | 5,900,000 |
| 8.- | Chemical Industry | 34,125,000 |
| 9.- | Pharmaceutical Industry | 2,000,000 |
| 10.- | Miscellaneous industries | 8,000,000 |
| | TOTAL INVESTMENT | Q 126,575,000 |
| | PORTION WHICH FIASA COULD FINANCE | Q 63,287,500 |

# PARCIAL LIST OF INDUSTRIES WHICH COULD BE FINANCED BY FIASA

## 1.- FOOD INDUSTRY

| | | |
|---|---|---|
| 1.- | Corn products | 500,000 |
| 2.- | Baby food | 300,000 |
| 3.- | Tuna processing and canning | 2,000,000 |
| 4.- | Animal Feed | 300,000 |
| 5.- | Shrimp fishing and processing | 2,000,000 |
| 6.- | Fish processing plant | 1,000,000 |
| 7.- | Pineapple | 200,000 |
| 8.- | Banana utilization | 3,000,000 |
| 9.- | Evaporated and powder milk production | 1,000,000 |
| 10.- | Plant for the production of malt | 600,000 |
| 11.- | Processing plant, canned meats | 500,000 |
| 12.- | Yuca products | 500,000 |
| 13.- | Cereals for breakfast | 100,000 |
| 14.- | Canning of fruits and vegetables | 500,000 |
| 15.- | Fish flour | 300,000 |
| 16.- | Potatoes industrialization | 200,000 |
| 17.- | Chocolates and confectionery | 1,000,000 |
| 18.- | Sauces and other condiments | 100,000 |
| 19.- | Cheese and cottage cheese | 100,000 |
| | Total | Q 14,200,000 |

## 2.- MECHANIC METAL INDUSTRY

| | |
|---|---|
| 1.- Enamel products | 300,000 |
| 2.- Bolts, nuts and screws | 100,000 |
| 3.- Microbus assembly | 300,000 |
| 4.- Sewing machines | 800,000 |
| 5.- Iron and steel bars | 600,000 |
| 6.- Gas and kerosene stoves | 200,000 |
| 7.- Typewriters | 500,000 |
| 8.- Hand tools for handicrafts and industries | 300,000 |
| 9.- Hardware articles | 300,000 |
| 10.- Cutlery and silverware | 200,000 |
| 11.- Machetes and agricultural implements | 300,000 |
| 12.- Zippers | 100,000 |
| 13.- Tricycles and scooters | 100,000 |
| 14.- Faucets and valves | 300,000 |
| 15.- Steel metal sheets | 600,000 |
| 16.- Water pumps | 300,000 |
| 17.- General foundry | 500,000 |
| 18.- Small electric motors | 300,000 |
| 19.- Plates and ironwork | 200,000 |
| 20.- Light agricultural machinery | 300,000 |
| 21.- Fans | 100,000 |
| 22.- Home electric appliances | 200,000 |
| 23.- Barrels | 100,000 |
| 24.- Measuring instruments | 200,000 |
| 25.- Nails, wire, etc. | 200,000 |
| 26.- Forging shop | 500,000 |
| 27.- Mufflers | 250,000 |
| 28.- Well retaining pipe | 750,000 |
| 29.- Bicycles | 100,000 |
| 30.- Electric transformers | 300,000 |
| 31.- Air conditioning devices | 300,000 |
| 32.- Fire extinguishers | 300,000 |
| 33.- Circuit breaker mechanisms | 200,000 |
| 34.- Vehicle electric accessories | 200,000 |
| 35.- Miscellaneous electric accessories | 300,000 |
| 36.- Electric heaters | 150,000 |
| 37.- Dry batteries | 100,000 |
| Total | Q 10,750,000 |

3.- WOOD INDUSTRY

| | | | |
|---|---|---|---|
| 1.- | Wooden boxes | Q | 100,000 |
| 2.- | Pre-fabricated houses | | 500,000 |
| 3.- | Modular elements for houses | | 300,000 |
| 4.- | Drying facilities | | 500,000 |
| 5.- | Furnitures pieces for exportation | | 200,000 |
| 6.- | Furniture | | 300,000 |
| 7.- | Wood treatment plant | | 500,000 |
| 8.- | Industrialization of hard woods | | 200,000 |
| 9.- | Cane bagasse panels | | 500,000 |
| 10.- | Agglomerated wood panels | | 500,000 |
| | Total | | Q 3,600,000 |

## 4.- RUBBER INDUSTRY

| | | |
|---|---|---|
| 1.- Rubber products, etc. | Q | 300,000 |
| 2.- Rubber soles and heels | | 200,000 |
| 3.- Rubber gaskets and packing | | 100,000 |
| 4.- Rubber belts and straps | | 100,000 |
| Total | Q | 700,000 |

## 5.- TEXTILES

| | | |
|---|---|---|
| 1.- Rayon fibers | Q | 3,000,000 |
| 2.- Nylon and Polyesterene filaments | | 8,000,000 |
| 3.- Kenaf Bags | | 2,000,000 |
| 4.- Rayon acetate | | 3,000,000 |
| 5.- Cloth finishing plant | | 1,000,000 |
| 6.- Mercerized and print cottons factory | | 1,000,000 |
| 7.- Plastic yarns and knits | | 2,000,000 |
| 8.- Acrylic fibers | | 5,000,000 |
| Total | Q | 24,000,000 |

## 6.- PAPER AND PAPER PRODUCTS

| | | |
|---|---|---|
| 1.- Cardboard (manufactured from waste paper) | Q | 500,000 |
| 2.- Kraft paper bags | | 100,000 |
| 3.- Manufacture of paper and cardborad products | | 1,000,000 |
| 4.- Paper manufactured from cane bagasse | | 1,000,000 |
| 5.- Paper Tape (for adding machines) | | 200,000 |
| 6.- Sandpaper | | 100,000 |
| 7.- Toilet paper | | 100,000 |
| 8.- Covered or decorated paper | | 100,000 |
| 9.- Lithographic paper and sheet card | | 200,000 |
| 10.- Paper pulp factory | | 20,000,000 |
| Total | Q | 23,300,000 |

## 7.- MINERAL NON-METALLIC PRODUCTS

| | | |
|---|---|---|
| 1.- Fine chinaware products | | 1,000,000 |
| 2.- Concrete blocks | | 100,000 |
| 3.- Dry cement mixes | | 50,000 |
| 4.- Glazed Tile | | 1,000,000 |
| 5.- Porcelain bath fixtures | | 1,000,000 |
| 6.- Pumice concrete | | 200,000 |
| 7.- Manufacture of chalk bars | | 50,000 |
| 8.- Cement | | 2,000,000 |
| 9.- Expansion of brick factory | | 200,000 |
| 10.- Cement products | | 100,000 |
| 11.- Vitrified clay pipe | | 200,000 |
| Total | Q | 5,900,000 |

## 8.- CHEMICAL INDUSTRY

| | |
|---|---|
| 1.- Acetylsalicylic acid | 1,000,000 |
| 2.- Citric acid | 1,000,000 |
| 3.- Lactic acid | 1,000,000 |
| 4.- Sulphuric acid | 2,000,000 |
| 5.- Calcium carbide | 750,000 |
| 6.- Alluminum sulfate | 200,000 |
| 7.- Coloring for textile industries | 500,000 |
| 8.- Pigments for paints | 500,000 |
| 9.- Pine wood and root processing plant extraction of turpentine | 300,000 |
| 10.- Sulphonated emulsifyers | 500,000 |
| 11.- Fertilizers - ammonia and urea | 8,000,000 |
| 12.- Phosphoric acid and superphosphate fertilizers | 3,000,000 |
| 13.- Surgical cotton | 100,000 |
| 14.- Acetic acid and other products from distillation of wood | 1,000,000 |
| 15.- Chemical solvents | 500,000 |
| 16.- Plastic sheet | 600,000 |
| 17.- P.V.C. compounds | 4,000,000 |
| 18.- Sulphur | 1,000,000 |
| 19.- Nylon strings | 200,000 |
| 20.- Coconut oil | 300,000 |
| 21.- Glues industry | 200,000 |
| 22.- Yuca industrialization | 200,000 |
| 23.- Soybean industrialization | 500,000 |
| 24.- Industrial lacquer and enamels | 300,000 |
| 25.- Printing and Lithography ink | 300,000 |
| 26.- Lubricant oils | 200,000 |
| 27.- Plastic products | 500,000 |
| 28.- Adhesive tape | 200,000 |
| 29.- Artificial leather | 500,000 |
| 30.- Shoe bottons | 50,000 |
| 31.- Material for leather treatment | 200,000 |
| 32.- Wax for automobiles and other waxes | 100,000 |
| 33.- Desinfectants | 100,000 |
| 34.- Cosmetics | 300,000 |
| 35.- Copper sulphate | 125,000 |
| 36.- Peroxide | 1,000,000 |
| 37.- Gelatine | 2,000,000 |
| 38.- Formaldehide | 1,000,000 |
| Total | 34,125,000 |

9. PHARMACEUTICAL INDUSTRY

1.- Antibiotics

2.- Biologic products for veterinary

Total

## 10.- MISCELLANEOUS INDUSTRIES

| | |
|---|---|
| 1.- Electric bulbs | 300,000 |
| 2.- Ballpen factory | 100,000 |
| 3.- Metallized leather and patent leather | 100,000 |
| 4.- Shoes for men | 500,000 |
| 5.- Leather and leather products | 500,000 |
| 6.- Clothing (men) | 300,000 |
| 7.- Clothing (women) | 300,000 |
| 8.- Clothing (children) | 300,000 |
| 9.- Hanckerchiefs, scarfs, etc. | 50,000 |
| 10.- Sun glasses | 50,000 |
| 11.- Jewellery (imitation) | 100,000 |
| 12.- Emery wheels | 200,000 |
| 13.- Umbrellas | 100,000 |
| 14.- Tooth brushes and other brushes | 300,000 |
| 15.- Towels, small towels, doormats, and similar products | 200,000 |
| 16.- Metal furniture | 200,000 |
| 17.- Containers for beverages and foods | 200,000 |
| 18.- Food lyophillization plant | 4,000,000 |
| 19.- Ramie utilization | 200,000 |
| Total | Q 8,000,000 |

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LOAN AUTHORIZATION
Provided from: Alliance for Progress Loan Funds
GUATEMALA: FINANCIERA INDUSTRIAL Y AGROPECUARIA, S. A. (FIASA)

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, Agency for International Development ("A.I.D."), by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Financiera Industrial y Agropecuaria, (FIASA) ("Borrower") or the organizers thereof, of not to exceed five million United States dollars ($5,000,000) to assist in financing the creation of a private industrial and agricultural development bank to make loans and equity investments in sub-projects promoting the creation, expansion and more effective operation of private industrial and agricultural enterprises in Guatemala and the other member countries of the Central American Common Market. A maximum of one hundred thousand dollars ($100,000) of the loan may be used to finance technical assistance to the Borrower. The loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment:

(a) The borrower shall repay the loan to A.I.D. in United States dollars within twenty (20) years from the date of the first disbursement under the loan, including a grace period of not to exceed five (5) years. The Borrower shall pay to A.I.D. in United States dollars interest at the rate of one and one-half ($1\frac{1}{2}$) percent per annum for eight (8) years and two and one-half ($2\frac{1}{2}$) percent per annum thereafter on the disbursed balance of the loan; provided, however, that if the Bank of Guatemala or the Government of Guatemala ("Government") assumes the foreign exchange risk for repayments of principal to A.I.D., then the interest rate shall be adjusted upward to provide for an estimated spread to Borrower on sub-loans of not more than six (6) percent.

(b) The Borrower shall fulfill its dollar obligiation under the loan by paying to Government in the currency of Guatemala the equivalent, determined as of a time and in a manner satisfactory to A.I.D., of the United States dollar amounts payable to A.I.D. under (a) above, and in such event the Government shall pay to A.I.D.:

(i) The equivalent in United States dollars, determined as of a time and in a manner calculated to obtain repayment of all dollars disbursed plus interest, of all amounts paid to Government by Borrower as follows:

(a) All interest immediately upon receipt subject to Government's right to retain all payments in excess of one (1) percent per annum during a grace period of not to exceed ten (10) years from the first disbursement under the loan ("Government grace period");

(b) Principal within forty (40) years, including the Government grace period.

(ii) Interest in United States dollars of one (1) percent per annum during the Government grace period, and two and one-half ($2\frac{1}{2}$) percent per annum thereafter, on all amounts of outstanding principal paid by Borrower to Government from the respective dates of such payments of principal.

2. Major Terms and Conditions

(a) Equipment, materials and services except marine insurance financed under the Loan shall have their origin in and be procured from the United States. Marine insurance financed under the loan shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.

(b) Unless A.I.D. shall otherwise agree in writing in advance, Borrower shall not:

(i) finance sub-projects in whole or in part from disbursements hereunder if such financing would cause its total assistance to any single enterprise to exceed the equivalent of one hundred thousand United States dollars ($100,000);

(ii) make sub-loans of less than three (3) years or more than ten (10) years' maturity or charge a rate of interest exceeding twelve (12) percent (including all commissions, fees and other charges) per annum on the disbursed balance of sub-loans;

(iii) make disbursements which would cause disbursements of the proceeds of the A.I.D. loan to exceed Borrower's paid-in capital by a ratio of greater than 4 to 1;

(iv) make sub-loans to sub-projects or investments to enterprises in which members, or the immediate families thereof, of Borrower's Board of Directors have any financial interest, unless the sub-loan or investment has been approved by a majority of the Board of Directors with the interested Director or Directors not voting;

(v) incur any additional indebtedness in excess of the equivalent of one million United States dollars ($1,000,000), and in any event no indebtedness of Borrower shall enjoy a position senior to this A.I.D. loan;

(vi) declare or pay any cash dividends on, or make any distributions on account of, any shares of any class of stock of Borrower whether now or hereinafter outstanding exceeding 10% annually of paid-in capital during the life of the loan, unless any such dividend or distribution in excess of 10% is matched by an equal prepayment of this loan in inverse order of maturity of principal payments and is further matched by the retention of an equal amount as earned surplus;

(vii) declare any dividends for any fiscal year of the Borrower which exceed the earnings of the Borrower during that same period;

(viii) make equity investments totalling in the aggregate more than Borrower's net worth; or

(ix) change its Manager, by-laws, or any major operating practice or policy.

(c) Borrower shall maintain a bad debt reserve, independent of other reserves, of not less than two (2) percent per annum on its entire sub-loan and investment port folio.

(d) Unless the Government or the Bank of Guatemala elects to assume the foreign exchange risk for repayment of principal to A.I.D., Borrower shall maintain a reserve against foreign exchange risks to which the proceeds of the loan are subject, under terms satisfactory to A.I.D.

(e) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

3. Conditions Precedent to Initial Disbursement

Prior to and as a condition precedent to the first disbursement under the loan, Borrower shall submit, in form and substance satisfactory to A.I.D.:

(a) Evidence that Borrower has been duly organized under the laws of Guatemala, has taken all corporate and legal action required under these laws essential to the validity of Borrower's obligations under the Loan Agreement and the effective implementation of this Project;

(b) Copies of Borrower's Charter, and by-laws or other documents governing the conduct of Borrower's operations, which have been approved by Borrower's Board of Directors;

(c) Evidence that Borrower has elected a Board of Directors and hired Management, both satisfactory to A.I.D., and has made staffing arrangements, including requisite technical skills, satisfactory to A.I.D.;

(d) Evidence that Borrower has subscribed capital of the equivalent of not less than one million two hundred fifty thousand United States dollars ($1,250,000), and that of this capital not less than the equivalent of three hundred thousand United States dollars ($300,000) has been paid in to Borrower, and that the subscribers are legally obligated to pay the balance in installments related to the disbursements of the proceeds of this loan in amounts and at times satisfactory to A.I.D., provided that the balance shall be fully paid within two (2) years from the date of the signing of the Loan Agreement.

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Deputy U.S. Coordinator
Alliance for Progress

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Date