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A.I.D. Project No. 515-0204  
A.I.D. Loan No. 515-T-045  
515-W-046

LOAN AND GRANT AGREEMENT  
BETWEEN  
CORPORACION PRIVADA DE INVERSIONES DE CENTRO AMERICA, S.A.  
AND THE  
UNITED STATES OF AMERICA  
ACTING THROUGH THE  
AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.")

Date: August 31, 1984

RECORD COPY

## Article I: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Corporación Privada de Inversiones de Centroamerica, S.A., ("Private Investment Corporation" or "PIC") of the Project described herein, and with respect to the financing of the Project by the Parties.

## Article 2: The Project

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, will consist of the establishment of a private sector investment finance institution, the Private Investment Corporation, to provide medium and long term financing, equity investments, and other financial services not traditionally available to private sector enterprises in Costa Rica. Annex 1, attached, amplifies the definition of the Project contained in this Section 2.1. Within the limits of the definition of the Project in this Section 2.1, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.2, without formal amendment of this Agreement. (Annex 1 identifies those elements of the Project for which Grant financing will be employed, and those for which Loan financing will be employed.)

### SECTION 2.2. Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project involving planned obligations of not to exceed twenty million United States dollars (\$20,000,000) in loan funds and one million United States dollars (\$1,000,000) in grant funds, subject to the availability of funds, will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the PIC, may specify in Project Implementation Letters appropriate time periods for the utilization of funds provided by A.I.D. under an individual increment.

## Article 3: Financing

SECTION 3.1. The Grant; The Loan. To assist the PIC to meet the costs of carrying out the project, A.I.D. pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the PIC in Fiscal Year 1984 under the terms of this Agreement not to exceed seventy-five thousand United States ("U.S.") Dollars (\$75,000.00) ("Grant") and to lend the PIC under the terms of this Agreement not to exceed eight million and fifty thousand U.S. Dollars (\$8,050,000.00) ("Loan"). The aggregate amount of disbursements under the

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Loan is referred to as "Principal." The Loan and the Grant together are referred to as the "Assistance".

The Assistance may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project.

SECTION 3.2. Resources Provided by the PIC for the Project

(a) The PIC agrees to provide or cause to be provided for the Project all funds, in addition to the Assistance, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the PIC for the Project will be not less than the equivalent of U.S. \$10,000,000.00 in equity funding.

SECTION 3.3. Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is August 31, 1988, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Assistance will have been performed and all goods financed under the Assistance will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Assistance for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the PIC, may at any time or times reduce the amount of the Assistance by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Loan Terms

SECTION 4.1. Interest. The PIC will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten years following the date of the first disbursement of the Loan hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective

disbursement of the Loan, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement of the Loan, on a date to be specified by A.I.D.

SECTION 4.2. Repayment. The PIC will pay to A.I.D. the Principal within twenty (20) years from the date of the first disbursement of the Loan in twenty-one (21) approximately equal semi-annual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the PIC with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 4.3. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C., 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

SECTION 4.4. Prepayment. Upon payment of all interest and any refunds then due, the PIC may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms.

(a) The PIC and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that A.I.D. should determine that the project is not meeting the goal, purpose, anticipated end of project conditions, or other project activities as detailed in Annex I, the Amplified Project Description.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.2, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.2, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under sub-section (c). The negotiations will take place at a location mutually agreed upon by the representatives

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of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of the PIC and/or its legal representative in San Jose, Costa Rica.

SECTION 4.6. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Parties hereunder will terminate, except with respect to any obligations arising out of the expenditure of Grant funds.

Article 5: Conditions Precedent to Disbursement for Lending Activities (Loan)

SECTION 5.1. Disbursement of Loan . Prior to any disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursements of loan funds for lending activities will be made, the PIC shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- (1) An opinion of counsel acceptable to A.I.D. that the loan and grant agreement has been duly authorized and ratified by the Board of Directors of both the private development Corporation (PIC) incorporated in Costa Rica and in Panama, and that it constitutes a valid and legally binding obligation of said corporation in accordance with all its terms;
- (2) A statement of the names of the principal officers of the PIC and of any additional representatives empowered to act on behalf of PIC together with a specimen signature of each person specified in such statement;
- (3) Evidence that the national currency law (Monetary Law) has been amended to eliminate those provisions which jeopardize successful implementation of project activities;
- (4) Evidence of the PIC's charter or articles of incorporation, the establishment of a working office, including evidence that the Managing Director is employed and that the PIC has employed the staff required to carry out its operations;
- (5) The basic organizational policies and operational guidelines of the PIC, including specific lending criteria;
- (6) Evidence of the establishment of a risk minimization fund; and
- (7) Evidence that a total of \$8,000,000, or the equivalent in local currency has been paid in as capital.

SECTION 5.2. Disbursement of Loan Funds in Excess of \$8,000,000. Prior to making any disbursement under the loan in excess of \$8,000,000, the PIC shall, except as A.I.D. may otherwise agree in writing, furnish A.I.D. evidence, in form and substance satisfactory to A.I.D., that:

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(a) The PIC has capital subscribed and paid-in of not less than the equivalent of \$10,000,000.

(b) The project, as implemented through the PIC, is meeting the goal, purpose, anticipated end of project conditions, or other project activities as detailed in Annex I, the Amplified Project Description.

SECTION 5.3. Notification. When A.I.D. has determined that the conditions precedent specified in Sections 5.1 and 5.2 have been met, it will promptly notify the PIC.

SECTION 5.4. Terminal Dates for Conditions Precedent. If all of the conditions specified in Section 5.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this agreement by written notice to the PIC.

Article 6: Special Covenants

The PIC agrees that it will for the life of the loan, unless A.I.D. otherwise agrees in writing:

(a) Not declare or issue any stock or monetary dividend until such time as the PIC has realized two consecutive years of profit and to limit the dividend paid in a given year to an amount which does not exceed the PIC's net income for the previous year;

(b) Not use A.I.D. loan or grant funds to pay administrative or operating expenses of the PIC;

(c) Make an annual provision for bad debts of at least two percent (2%) of its annual average outstanding loan and investment portfolios;

(d) Not incur any indebtedness which would enjoy a position superior to the obligation incurred under the A.I.D. loan;

(e) Use project reflows of principal and interest in a manner which will achieve the purposes and objectives of the Project;

(f) Submit a report to A.I.D. each quarter during the life of this Agreement. Each report will contain a breakdown of sub-project, showing types of industry, commitments and disbursements, terms and conditions of financing and uses of A.I.D. funds, an aging of accounts, and other information as A.I.D. may reasonably request;

(g) Not amend or modify its corporate charter and/or by-laws or other incorporating instruments without prior approval of A.I.D.;

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(h) Limit the maximum total exposure to any sub-borrower or project to no more than 20% of the PIC's equity base.

(i) Engage the services of an internationally recognized accounting firm, satisfactory to A.I.D., to carry out an annual audit of the PIC's operations, and its compliance with this Agreement and to provide copies of such audits to A.I.D.;

(j) Not incur short or long-term liabilities other than concessional assistance acceptable to both Parties, which cause the debt/equity ratio of the PIC to exceed four to one (4/1) during the first five years of operations, five to one (5/1) during years six and seven, and six to one (6/1) thereafter;

(k) Not to engage in traditional commercial banking activities which include; but are not limited to: banking services, letters of credit, import/export transactions, foreign exchange markets, short term credits (less than three years) and working capital financing;

(l) Give A.I.D. the right to appoint a non-voting representative to the Board of Directors.

(m) Request prior A.I.D. approval for appointment of the Managing Director and any changes in the Managing Director;

(n) Request A.I.D.'s prior approval of any subloan or investment related to the production or export of citrus, palm oil, sugar, coffee or bananas;

(o) Not make, without prior A.I.D. approval, an equity investment in or a sub-loan to, any business or other activity in which any PIC officer, director, employee, or their immediate families has a financial interest;

(p) Not finance or be involved in projects which adversely affect the environment, activities which would exploit or otherwise harm endangered species, and activities which in any way involve the manufacture or sale of military, paramilitary or police equipment, and or related activities;

(q) Establish a monitoring system to insure that sub-project procurement activities comply with all A.I.D. regulations as set forth in this Agreement;

(r) Not finance the purchase of land with A.I.D. funds.

(s) Use A.I.D. funds only for lending; no equity positions will be taken with A.I.D. funds.

(t) Suitably mark projects financed with A.I.D. funds with the A.I.D. handclasp symbol, indicating the participation of the United States in the project. USAID/Costa Rica will provide information on marking requirements for the project.

SECTION 6.1. Evaluation Plan.

The Parties agree to establish an evaluation program as part of the PIC's on-going operations. This program will develop specific measurable indicators of the PIC's performance in each operational area. Except as the Parties otherwise agree in writing, the program will include (a) evaluation of progress towards attainment of PIC objectives; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation to the degree feasible of the overall development impact of the project. This program will be used to provide periodic measurements of the PIC's activities and baseline data for the mid-course and final project evaluation. An illustrative listing of these indicators would include: portfolio size, impact of subloans and investments on non-traditional exports, characteristics of client enterprises, various measures of subproject and portfolio macro-economic and social impact, the numbers of firms and export volume by productive sector, and the impact on client enterprises.

Two in-depth project evaluations will be conducted by independent contractors during the life of the Project. The first one is scheduled after eighteen months of project implementation (March 1986), at which time the PIC's progress towards implementation targets will be scrutinized. The second evaluation will be scheduled for January 1988, thus serving as an end of project evaluation.

These comprehensive evaluations will, in addition to those areas addressed above, assess the following aspects of the Project:

- (a) The impact of sub-loans and investments on the borrower's business in terms of increased income and entry into new markets.
- (b) The macro-economic effect of the PIC's operations on foreign exchange earnings, and employment generation.
- (c) The effectiveness of the PIC's financial operations in relation to its client requirements.
- (d) The PIC's own institutional viability and achievement of financial projections.

The targets and indicators in the end of project conditions presented in Annex I will be the principal basis for measuring progress towards achieving the Project's goal and purpose.

Information for carrying out the evaluations will be obtained from: project records, independent audit reports and interviews with PIC personnel, clients, technical advisors, and A.I.D. officials.

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Article 7: Procurement Source

SECTION 7.1. Foreign Exchange Costs. Disbursements pursuant to Section 8.1 under the A.I.D. Loan will be used exclusively to finance the costs of goods and services required for the Project with respect to goods having their source and origin, and with respect to services their nationality, in countries of the Central American Common Market (CACM) and in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services, except as A.I.D. may otherwise agree in writing, and except as provided in the Standard Provisions Annex, Section C.1(b) with respect to marine insurance. Ocean transportation costs will be financed under the Loan only on vessels under flag registry of the United States or countries of the Central American Common Market, except as A.I.D. may otherwise agree in writing.

Goods and services financed by A.I.D. under the Grant shall have their source and origin or nationality in the United States or countries of the Central American Common Market (CACM), except as A.I.D. may otherwise agree in writing, and except as provided in the Standard Provisions Annex, Section C.1(b), with respect to marine insurance. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

SECTION 7.2. Local Currency Costs. Disbursements pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in member countries of the Central American Common Market ("Local Currency Costs").

Article 8: Disbursements

SECTION 8.1. Disbursements for Foreign Exchange Costs. After satisfaction of conditions precedent, the PIC may obtain disbursement of funds under the Assistance for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of the Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or, (B) requests for A.I.D. to procure commodities or services in the PIC's behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers, through Letters of

Credit or otherwise, for such goods and services. (C) Banking charges incurred by the PIC in connection with Letters of Commitment and Letters of Credit will be financed under the Assistance unless the PIC instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Assistance.

SECTION 8.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, the PIC may obtain disbursement of funds under the Assistance for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase (or from local currency already owned by the U.S. Government); or

(2) by A.I.D. (A) requesting the PIC to make available the local currency for such costs, and

(B) thereafter making available to the PIC through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the PIC or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available by the PIC, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b) (1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b) (2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit.

SECTION 8.3. Other Forms of Disbursement. Disbursements of the Assistance may also be made through such other means as the Parties may agree to in writing.

SECTION 8.4. Rate of Exchange. Except as may be more specifically provided under Section 8.2, if funds provided under the Assistance are introduced into Costa Rica by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the PIC will make such arrangements as may be necessary so that such funds may be converted into local currency at the highest rate of exchange which, at the time the

conversion is made, is not unlawful in Costa Rica.

SECTION 8.5. Date of Disbursement. Disbursement by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the PIC or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order; (b) on the date on which A.I.D. disburses to the PIC or its designee local currency acquired in accordance with Section 8.2 (b) (1); or (c) if local currency is obtained in accordance with Section 8.2 (b) (2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

Article 9: Miscellaneous

SECTION 9.1. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

Corporación Privada de Inversiones de Centro America, S.A.  
c/o Sociedad Anónima de Inversiones (SAIP), S.A.  
Apartado No. 2809  
San Jose, Costa Rica

Alternate address for cables:

To A.I.D.:

Mailing Address:

USAID/Costa Rica  
United States Embassy  
San Jose, Costa Rica

Alternate address for telegrams:

USAID/AMEMBASSY  
San Jose, Costa Rica

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

SECTION 9.2. Representatives. For all purposes relevant to this Agreement, the PIC will be represented by the individual holding or acting in the office of President and A.I.D. will be represented by the individual holding or acting in the office of the Mission Director in Costa Rica, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of

the PIC, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 9.3. Standard Provisions Annex. A "Combined Loan and Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this agreement.

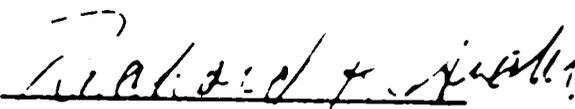
IN WITNESS WHEREOF, the Corporacion Privada de Inversiones de Centroamerica, S.A., and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

CORPORACION PRIVADA DE INVERSIONES DE CENTROAMERICA, S.A.

  
\_\_\_\_\_  
Samuel Yankelewitz Berger  
President

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THE UNITED STATES OF AMERICA

  
\_\_\_\_\_  
Richard K. Archi  
Acting Director  
United States A.I.D. Mission to Costa Rica

## ANNEX I

### AMPLIFIED PROJECT DESCRIPTION

#### I. General Project Description

The Project proposes the creation of a private sector investment corporation which would act as a merchant bank, or catalyst, in the development of projects which will lead to hard currency exports. This project, as implemented by the Private Investment Corporation (PIC), also includes an important development banking strategy to insure availability of medium and long-term project financing and generate sufficient earnings to carry out the other merchant banking functions.

The merchant banking concept refers to the active promotion and packaging of projects. Specifically, the concept refers to active promotion of new projects; project development assistance for its clients; and bringing together all of the elements necessary for successful project development, financing and implementation.

The PIC will differ from existing Costa Rican financial institutions by virtue of its legal basis and activities, such as taking equity positions where indicated. The flexibility promised by the PIC will strengthen the private sector's capacity to undertake new productive investment through the creation of new, or expansion of existing enterprises so that Costa Rica can better react to the export opportunities presented by the CBI.

The Borrower/Grantee is the Private Investment Corporation, whose legal name is the "Corporación Privada de Inversiones de Centroamérica, S.A.", incorporated in April, 1984. Investors in the PIC include the most important private financial institutions in Costa Rica as well as some of the country's most influential individuals, companies, and other private institutions.

The goal of the project is to stimulate growth in the productive, export oriented sectors of Costa Rica, and thus increase levels of employment and foreign exchange earnings. The purpose of the project is to establish a viable Private Investment Corporation (PIC) to provide investment packaging services, medium and long-term credit, and equity financing for export oriented investments. The PIC will contribute to the achievement of the project goal by strengthening the private sector's capacity to undertake new export oriented projects, either through the creation of new enterprises or the modernization/expansion of existing productive sector enterprises. The PIC will play a critical role in building a stronger productive sector in Costa Rica and will serve as a link between U.S. companies seeking to expand or manufacture overseas under the auspices of the CBI and the Costa Rican business community.

The PIC will be characterized by its broadly based equity structure in which no individual shareholder will own more than one percent (1%) of authorized common stock and no institutional investor will be able to purchase more than three percent (3%) to avoid over concentration of the capital in small groups (with the exception of CINDE's initial purchase of 50%). Highly qualified management will be recruited and will work closely with the Board of Directors and local staff in order to secure the necessary expertise for the success of the PIC.

The anticipated end of project conditions are:

- The PIC will be a viable financial institution that will assist in meeting the project development and financing needs of the private sector for export-oriented investments.
- An estimated \$77 million of direct investment will be generated through the PIC's project development activities, which involves PIC direct financing activity (term debt and equity) and project linked investment.
- Between 8,000 and 8,600 new jobs will be created for both skilled and unskilled workers in San José and provincial areas through the stimulation of new productive sector activity. This employment will result in approximately \$22 million in wages and salaries annually by the end of the fourth year.
- An estimated \$45 to \$60 million in increased annual foreign exchange earnings by identifying, promoting, and financing new or expanded export opportunities.
- New programs aimed at tapping additional sources of funds for industrial lending (co-financing, intermediation, etc.) will be developed.
- Support services to client enterprises to assure the efficient management of their investment will be provided.

## II. Responsibilities of the Participants and Description of the Activities

### A. The Private Investment Corporation

#### 1. Equity Capital

The Board of Directors of the PIC has committed itself to raising a total of \$10 million in equity, or the equivalent in local currency, in two stages. The first \$6.5 million has already been secured, which clearly demonstrates the private sector's commitment to this type of institution, which will help Costa Rica to benefit from the advantages and incentives which have been made available through the Caribbean Basin Initiative. An additional \$1.5 million will be raised prior to the first disbursement of the

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Assistance, and the remaining \$2 million is scheduled to be raised in 1985 once the institution is underway, and this second capitalization drive will concentrate on bringing in the smaller investor (individuals and smaller companies) in order to achieve a wider stockholder base for the PIC.

2. The Managing Director

The managing director is a key individual in the organization. The managing director will be responsible for the preparation and execution of the general strategic work plan of the PIC and will be the principal liaison between the PIC and the international financial community. Consequently, the managing director must be an individual with extensive relevant experience, strong contacts in the international financial and capital markets, and who at the same time understands and can work effectively in the Costa Rican environment.

3. Financial Services

a. Introduction

The PIC Project has been designed to introduce the merchant banking concept in Costa Rica. It will be the responsibility of the PIC's Board and management to define and communicate to the executives and senior staff of existing or new enterprises how the PIC will operate and most importantly how it will complement existing commercial banking operations in Costa Rica. Communications will be accomplished through direct contacts, and the development of these personal relationships will be vital if the PIC is to gain the important market development support required to establish its business successfully. As an integral part of this start-up effort a carefully designed PIC brochure will be prepared and circulated to local bankers and businessmen underscoring the uniqueness of PIC services. This brochure will stress how these services will differ from and complement those already offered by commercial bankers.

A key to the long term commercial viability of the PIC will be its ability to generate attractive profit margins from its core merchant banking business. These margins will be achieved through increased operating efficiencies resulting from the processing of projects with similar characteristics. Each time the PIC packages a project its staff will become familiar with the various nuances of that particular business and industry. Consistent with the above is the approach followed by successful investment/merchant bankers in the United States and elsewhere of assisting their clients to grow into larger and more productive enterprises.

In addition to the establishment of a viable merchant banking operation, the PIC project incorporates a loan financing program as well as an equity financing program which will broaden the services that the PIC will offer. In addition to the above programs, it is envisioned that, in the long run, the PIC will develop other corporate financial services in order to provide additional services to new or expanding export oriented companies in Costa Rica.

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b. Grant Funds

The PIC will require technical assistance in three areas: investor search and identification, specialized investment and technical analysis, and project evaluation. U.S.\$75,000 is being provided in F.Y. 1984 through this Agreement, and U.S.\$925,000 will be incrementally funded in the future, subject to the availability of funds and the mutual agreement of the Parties to proceed.

The advisory services financed by the Grant will be utilized during the first two years of project implementation, or the formative phase of corporate growth when the PIC will be attempting to establish itself in both the Costa Rican and U.S. business environments. The provision of this level of technical assistance will enable the corporation to rapidly focus on project opportunities, develop in-depth analyses of these ideas, and to put together profitable and developmentally sound project packages. Furthermore, the proposed consulting services will permit the PIC to develop a network of contacts in U.S. financial and industrial circles and thereby establish credibility in this critical market.

Once the concept of project packaging is understood as providing "value added" to a potential client's original proposal, and once the PIC has developed a profitable portfolio, this level of grant funding will no longer be necessary and these costs will be absorbed by either the client or the PIC.

c. Loan Financing

Initially, the principal source of funds for PIC loan activities will be a \$20 million loan from A.I.D. U.S.\$8,050,000 is being provided in F.Y. 1984 through this Agreement, and future increments are subject to the availability of funds and the mutual agreement of the Parties to proceed. This financing will be on-loaned by the PIC to high quality projects in Costa Rica which are export oriented. Loan terms should be for a minimum of three years with an annual interest rate at market rates. Under no condition will the PIC provide working capital loans or other short term, commercial bank type lending with its resources.

A.I.D. funds are being provided to the project at substantially lower than market rates to insure that the project achieves the developmental impact on employment, investment, new foreign exchange earnings, and other improvements in the structure of Costa Rica's economy which A.I.D. is seeking by providing this Assistance to the project.

A.I.D. expects that the PIC will undertake the financing of viable projects which are of a higher risk in nature than those currently being financed by existing financial institutions in Costa Rica. A.I.D. funds lent through the PIC should be used for the development of new projects which might not otherwise be financed and which will lead to the achievement of the goal, purpose, and end of project conditions specified in Section I of this Annex.

A.I.D. evaluations will specifically examine the extent to which A.I.D. funds are used for these purposes.

d. Equity Financing

The PIC is expected to have at least \$10 million of initial equity capital, of which half will be supplied by CINDE and the balance provided by other private organizations and individuals. This capital will provide the initial resources for equity operations.

The initial approach should be to limit equity-type investments in any single sub-project to less than ten percent of the total equity capital of the PIC. This percent should not represent more than twenty-five percent (25%) of the equity in any given sub-project. Equity-type investments are defined as any form of financing that is below conventional interest rate terms and has equity features such as convertible debenture financing or other loan financing below market rates but with an equity or earnings participation which offers a market return to the PIC.

PIC equity investments should be, as a matter of policy, residual commitments or the last capital to be supplied to a PIC supported project. The clear exception would be those cases where the presence of a PIC equity investment is a pre-condition to attracting other capital. Where a PIC investment is necessary "up-front", it should be at a level below the ten percent ceiling. In principle, PIC investments should be highly selective and structured to encourage the maximum participation of other financial institutions and investment sources. This leverage strategy is essential if PIC is to maximize its impact on private capital formation in Costa Rica.

Convertible debentures should be considered by the PIC as an attractive alternative method of financing, providing PIC with current interest income and a potential equity position. If the project succeeds, convertible debentures will result in the PIC becoming an owner on terms attractive to both parties.

With respect to other forms of loan financing with equity features, there will be opportunities for PIC to make loans at low rates of interest where it receives equity participation as offsetting compensation. For example, PIC may make development loans for select agribusiness projects where the interest rate charged is significantly below market rates or capitalized to the loan in the early years. In such cases, the approach would be designed to consider inadequate cash flows in early years. For such consideration the PIC would expect to receive an equity interest in the project.

The PIC must be circumspect with its equity investments. It must avoid being drawn into a project as the principal owner or promoter. The PIC must operate as a merchant banking company and not an investment holding company. If it should adopt the latter role, its energy would be focused on managing operating businesses, an activity for which it was not designed. Such a step would undermine its important merchant banking activities in the capital markets.

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e. Corporate Finance Services

For the first few years the PIC will be actively involved in structuring and implementing projects. However, as the PIC matures and develops a sound track record, other corporate finance services will be offered. In some cases its role will be that of supplying loan and/or equity funds; however, in others, it will provide its own funds and mobilize those of other lenders and investors, or it is possible that the PIC will act as an agent in mobilizing only third party funds. In most cases, however, it will work closely with the project sponsor to bring all the necessary project ingredients together and in this capacity it will expect to be paid a fee (the project packaging process).

PIC fees resulting from its financial services will be an important complement to its income from loans and equity. Such fees, over time, should significantly enhance the direct return from loans and investments.

4. Additional Responsibilities of the PIC

The PIC will be responsible for developing and installing all sub-lending management systems and procedures (after obtaining A.I.D.'s approval). The PIC will also develop and formalize all lending and investment policies, in accordance with the conditions of the A.I.D. loan.

Detailed internal management information requirements will be developed by PIC management. This information will include, among others, periodic delinquency reports, current valuations of collateral pledged to secure loans, proforma and historical financial statements of all borrowers, portfolio performance appraisal and cash flow projections. Prior to each direct loan disbursement the PIC's management must establish to the satisfaction of its Board of Directors that (1) the borrower will be able to service the debt, (2) that any collateral pledged is unencumbered and fairly valued, and (3) that the purpose of the loan is within the lending charter of the PIC.

The PIC will systematically supervise its loans and investments in order to monitor their performance, and to provide any necessary back-up support. The PIC will compile a set of key indices for each such project and require the respective companies to supply that information periodically, preferably on a quarterly basis. The collected data will comprise not only financial indices but also information on fulfillment of other project evaluation criteria as appropriate in each case. This information, together with frequent personal contacts and membership on the boards of directors of client companies will enable the PIC to detect trouble (and opportunities) in the early stages of development and to avoid costly surprises. As a result of the loan supervision activities, the PIC will be in a position to assist its borrowers in developing their technical and managerial skills. Such "trouble shooting" services will allow the project to continue operating smoothly or to overcome specific bottlenecks which can occur in marketing, production, or other areas.

In addition to quarterly progress reports covering all aspects of the project's activities, the PIC will be required to submit annual audited statements prepared by an independent accounting firm.

B. Agency for International Development

1. Overall Responsibility

The A.I.D. Mission in Costa Rica will be responsible for overall management of the Project on behalf of A.I.D. The Mission's Office of the Private Sector (OPS) will be responsible for monitoring the project. With the assistance of the Mission Controller and, when required, Mission management, the OPS will:

- review and forward for processing PIC requests for disbursements;
- review proposed sub-loans which require A.I.D. approval;
- review PIC reports and other related correspondence, taking action as needed;
- supervise project evaluation activities;
- monitor project activity, ensuring compliance with conditions and covenants of Project Agreement, taking management action as necessary;
- make periodic visits to sub-project sites; and
- report on the project to Mission management and AID/W as appropriate.

III. Illustrative Financial Plan

The financial plan presented in this section is illustrative and changes may be made to the plan by representatives of the parties named in the text of the Agreement without formal amendment to the Agreement if such changes do not cause (1) A.I.D.'s contribution to exceed the amount specified in the text of the Agreement, or (2) the PIC's contribution to be less than the amount specified in the text of the Agreement. Future A.I.D. obligations are subject to the availability of funds and mutual agreement of the Parties to proceed.

PROJECT FINANCIAL PLAN  
(Source and Application of Funding - \$ Thousands)  
Project No. 515-0204  
As of August 27, 1984

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Project Inputs	A.I.D.		P.I.C. Equity	Total
	Loan	Grant		
<hr/>				
A. Project Support				
1. Technical Assistance				
a. Investor Search/Identification		330		330
b. Investment/Technical Analysis		397		397
c. Project Evaluation		150		150
d. Contingency and Inflation		<u>123</u>		<u>123</u>
Sub-Total		1,000		1,000
B. Sub-Project Lending Activities	20,000			20,000
C. Sub-Project Equity Activities	<u>          </u>	<u>          </u>	<u>10,000</u>	<u>10,000</u>
	20,000	1,000	10,000	31,000

IV. Financing Methods

A. Sub-Project Disbursements

Disbursement by A.I.D. to the PIC for sub-project financing will be made through a special credit fund and through A.I.D. Letters of Commitment. A.I.D. will make a dollar advance to create a credit fund, the balance of which will equal PIC's projected sub-project disbursements for a thirty day period. This advance will be held by PIC in a non-interest bearing account. The advance will be replenished by A.I.D. upon the PIC's submission to A.I.D. of vouchers and supporting documentation which evidence sub-project disbursements.

The dollar advance to the PIC is necessary to permit it to make dollar-denominated loans through its Panamanian holding company so that the loans can be registered at the Costa Rican Central Bank. Sub-loans or portions thereof denominated in U.S. dollars using the PIC's credit fund will normally be used for local cost financing. A.I.D. Letters of Commitment will normally be used for the financing of imported items.

B. Grant Disbursements

A.I.D. will also provide the PIC with up to thirty (30) days cash requirements through a revolving fund, based on executed contracts and cash

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flow projections. Given that the use of these funds will be for consulting and technical services from the United States, the A.I.D. grant monies will be placed in a non-interest bearing account in a U.S. bank in order to assure timely payments to the advisors.

### C. Fund Limits

A.I.D. will not exceed a limit on the sub-project credit fund of US\$1.0 million and a limit on the grant portion of the revolving fund of \$300,000. It is further envisioned that A.I.D. will open Letters of Commitment for up to US\$1.0 million for the financing of imported goods from the United States.

### V. Risk Minimization Fund

In order to provide A.I.D. with additional security against PIC repayment default, the Project will include the establishment and capitalization of a special "risk minimization fund".

To establish the fund, PIC will make semi-annual payments into a U.S. bank account, acceptable to A.I.D., at the following annual rates: three percent of the average outstanding balance of the A.I.D. loan during the ten-year grace period and two percent thereafter until the balance of the account equals the outstanding balance of the A.I.D. loan. These funds will be used to acquire U.S. dollar denominated debt instruments which are acceptable to A.I.D. PIC payments into the fund and earnings thereon less fees, if any, will pass to A.I.D., should the loan be in default. No other PIC creditors will have any claim on the fund. A.I.D.'s exclusive claim on the fund in the event of default will not prejudice any other claims which A.I.D. may share with other creditors.

PIC payments into the fund may not be made with A.I.D. loan funds or with the recuperated principal of the A.I.D. subloan portfolio. Payments will continue until the funds balance, including accumulated interest thereon, equals the outstanding balance of the A.I.D. loan. If at the end of any A.I.D. loan payment period, the value of the assets in the fund's account exceeds the balance of the A.I.D. loan, the PIC may, with the written agreement of A.I.D., transfer such excess amounts to its own account. A.I.D. will no longer have any rights on funds so transferred.

### VI. Procurement Procedures

#### A. General Procurement Policies

Procurements by the PIC and its sub-projects with A.I.D. loan/grant funds will be made in conformance with A.I.D. procurement policies as described in A.I.D.'s Handbook 1, Supplement B, Chapter 19, Intermediate Credit Institutions. The provisions of Handbook 11 will govern purchases made by PIC for its own account. The source and origin of all A.I.D. funded procurements, except shelf items, will be restricted to Code 941 of the A.I.D.

Geographical Code Book for the Loan, or the United States and member countries of the Central American Common Market for the Grant.

PIC management will have responsibility for monitoring procurement, and regular reports will be rendered to USAID/Costa Rica. The PIC will advise its sub-borrowers of the restrictions on loan-financed dollar procurement and these purchases will be monitored. Additionally, the PIC will set up a special system to monitor sub-borrower loan-funded shelf-item procurement of Code 899 origin to assure that the total amount of those purchases does not exceed 10% of total local cost financing or \$250,000, whichever is less, and otherwise complies with A.I.D. regulations regarding shelf-item procurements contained in A.I.D. Handbook 1, Supplement B, Chapter 19.

B. Technical Assistance Contracting Plan

An estimated fifty-three person months (PM) of short term technical assistance will be utilized by the PIC during the first two years of project implementation. Three types of consulting services will be needed: investor search and identification; specialized technical assistance for project and institutional development; and project evaluation. Investment banking firms, venture capital companies, specialized consulting firms, and free lance consultants will be contracted as appropriate. The PIC will be responsible for the selection and contracting of the required consultants under the terms and conditions of HB 11 (Country Contracting), and subject to a written approval by A.I.D.

In all cases, prior to contracting, the Mission will assist the PIC's management to identify and use small, disadvantaged, and women owned enterprises that have the experience to provide the desired technical services.

ANNEX II

COMBINED LOAN AND GRANT STANDARD  
PROVISIONS

Definitions: As used in this Annex, the Agreement refers to the Project Loan and Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

ARTICLE A

Project Implementation  
Letters

To assist Borrower in the implementation of the Project, A.I.D. from time to time will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement including the revision of elements of the amplified description of the Project in Annex I.

ARTICLE B

General Covenants

SECTION B.1. Consultation

The parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project

The Borrower will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial and management

practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3. Utilization of Goods  
and Services

(a) any resources financed under the Assistance will, unless otherwise agreed in writing by A.I.D., be devoted to the Project, until the completion of the Project and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) goods or services financed under the Assistance, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation

(a) This agreement and the Assistance will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of Costa Rica.

(b) to the extent that (i) any contractor, including any consulting firm, any personnel of such contractor financed under the Assistance, and any property or transactions relating to such contracts and (ii) any commodity procurement transaction financed under the Assistance are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in the territory of the Borrower, the Borrower will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Assistance.

SECTION B.5. Reports, Records,  
Inspections, Audit

The Borrower will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records

relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Assistance. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

(c) afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by A.I.D., and books, records, and other documents relating to the Project and the Assistance.

SECTION B.6. Completeness of Information

The Borrower confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Assistance, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement; and

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or to discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments

The Borrower affirms that no payments have been or will be received by any official of the Borrower in connection with the procurement of goods or services financed under the Assistance except fees, taxes, or similar payments legally established in the country of the Borrower.

SECTION B.8. Information and Marking

The Borrower will give appropriate publicity to the Assistance and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

ARTICLE C

Procurement Provisions

SECTION C.1. Special Rules

(a) the source and origin of ocean and air shipping will be deemed to be the

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ocean vessel's or aircraft's country of registry at the time of shipment;

(b) premiums of marine insurance placed in the territory of the Borrower will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7. (a);

(c) any motor vehicles financed under the Assistance will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

(d) transportation by air, financed under the Grant, of property or person, will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

#### SECTION C.2. Eligibility Date

No goods or services may be financed under the Assistance which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

#### SECTION C.3. Plans, Specifications, and Contracts

In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) the Borrower will furnish to A.I.D. upon preparation:

(i) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Assistance, including documentation relating to the pre-qualification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(ii) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed under the Assistance, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a) (ii) will be identified in Project Implementation Letters;

(b) documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Assistance will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) contracts and contractors financed under the Assistance for engineering and other professional services, for construction services, and for such other

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services, equipment, or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) consulting firms used by the Borrower for the Project but not financed under the Assistance, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Borrower for the Project but not financed under the Assistance shall be acceptable to A.I.D.

#### SECTION C.4. Reasonable Price

No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Assistance. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

#### SECTION C.5. Notification to Potential Suppliers

To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Assistance, the Borrower will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

#### SECTION C.6. Shipping

(a) goods which are to be transported to the territory of the Borrower may not be financed under the Assistance if transported either;

- (i) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment; or
- (ii) on an ocean vessel which A.I.D., by written notice to the Borrower has designated as ineligible; or
- (iii) under an ocean or air charter which has not received prior A.I.D. approval.

(b) costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Assistance, if such goods or persons are carried:

- (i) on an ocean vessel or aircraft (the latter financed under the loan portion of the Assistance) under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement

entitled "Procurement Source: Foreign Exchange Costs", without prior written A.I.D. approval; or

(ii) in the case of aircraft, the cost of which is financed under the grant portion of the Assistance, on a non-U.S. flag air carrier if a U.S. flag carrier is available (in accordance with criteria which may be contained in Project Implementation Letters) without prior written A.I.D. approval; or

(iii) on an ocean vessel which A.I.D., by written notice to the Borrower, has designated as ineligible; or

(iv) under an ocean vessel or air charter which has not received prior A.I.D. approval;

(c) unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels,

(i) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and

(ii) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Borrower on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (i) and (ii) of this subsection must be achieved with respect to any cargo transported from U.S. ports and also any cargo transported from non-U.S. ports, computed separately.

#### SECTION C.7. Insurance

(a) marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Borrower may be financed under the Assistance as a Foreign Exchange Cost under this Amendment provided:

(i) such insurance is placed at the lowest available competitive rate, and

(ii) claims thereunder are payable in U.S. dollars, or as A.I.D. may agree in writing, in the currency in which such goods were financed or in any freely convertible currency. If the Borrower (or government of Borrower), by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.- financed procurement against any marine insurance company authorized to do business in any State

of the United States, then all goods shipped to the territory of the Borrower financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States;

(b) except as A.I.D. may otherwise agree in writing, the Borrower will insure, or cause to be insured, goods financed under the Assistance imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Borrower under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Borrower for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned  
Excess Property

The Borrower agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Assistance, should be utilized. Funds under the Assistance may be used to finance the costs of obtaining such property for the Project.

ARTICLE D

Termination; Remedies

SECTION D.1. Cancellation by  
Borrower

The Borrower may, by giving A.I.D. 30 days written notice, cancel any part of the Assistance which has not been disbursed or committed for disbursement to third parties.

SECTION D.2. Events of Default;  
Acceleration

It will be an "Event of Default" if:

(a) the Borrower shall have failed to pay when due any interest or installment of Principal required under this Agreement; or

(b) the Borrower shall have failed to comply with any other provision of this Agreement; or

(c) the Borrower shall have failed to pay when due any interest or installment of Principal or other payment required under any other loan, guaranty or other agreement between the Borrower or any of its agencies and A.I.D. or any of its predecessor agencies. If an Event of Default shall have occurred, then A.I.D. may give the Borrower notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time;

- (i) such unrepaid Principal and accrued interest hereunder will be due and payable immediately; and
- (ii) the amount of any further disbursements made pursuant to then outstanding commitments to third parties or otherwise will become due and payable as soon as made.

SECTION D.3. Suspension

If at any time:

- (a) an Event of Default has occurred; or
- (b) an event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Assistance will be attained or that the Borrower will be able to perform its obligations under this Agreement; or
- (c) any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or
- (d) the Borrower shall have failed to pay when due any interest, installment of principal or other payment required under any other loan, guaranty, or other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies;

Then A.I.D. may:

- (i) suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the Borrower;
- (ii) decline to issue additional commitment documents or to make disbursements other than under existing ones; and
- (iii) at A.I.D.'s expense, direct that title to goods financed under the Assistance be transferred to A.I.D. if the goods are from a source outside Borrower's country, are in a deliverable state and have not been offloaded in ports of entry of Borrower's country. Any

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

SECTION D.4. Cancellation by A.I.D.

If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Assistance that is not then disbursed or irrevocably committed to third parties.

SECTION D.5. Continued Effectiveness of Agreement

Notwithstanding any cancellation, suspension of disbursements, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder, provided, that any obligations arising out of the expenditure of Grant funds will not be extinguished by such payment of principal and interest.

SECTION D.6. Refunds

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Borrower to refund the amount of such disbursement in United States Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of the Cooperating Country to comply with any of its obligations under this Agreement has the result that goods or services financed under the Assistance are not used effectively in accordance with this Agreement, A.I.D. may require the Cooperating Country to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

(d) (i) Any refund under subsections (a) or (b), or

(ii) any refund to A.I.D. from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Assistance, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not

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conform to specifications, or to services that were inadequate, will,

-be made available first for the cost of goods and services required for the Project, to the extent justified, and

-the remainder, if any, if derived from loan funds, will be applied to the installment of Principal in the inverse order of their maturity and the amount of the loan reduced by the amount of such remainder, and:

(iii) if derived from Grant funds, will be applied to reduce the amount of the Grant.

(e) any interest or other earnings on Grant funds disbursed by A.I.D. to the Cooperating Country under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Cooperating Country.

SECTION D.7. Nonwaiver of Remedies

No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

SECTION D.8. Assignment

The Borrower agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Cooperating Country in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.

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AGENCIA PARA EL DESARROLLO INTERNACIONAL

MISION ECONOMICA DE LOS ESTADOS UNIDOS EN COSTA RICA

APR 01 1986

Apartado Postal 10033  
1000 San José, Costa Rica  
Teléfono 33-11-33  
Telex 3350 AIDCR KR

March 14, 1986

Mr. José Ochoa  
Managing Director  
Corporación Privada de Inversiones  
de Centroamérica, S.A.  
San José

REF: Project AID 515-0204  
Grant Implementation Letter No. 4

Dear Mr. Ochoa:

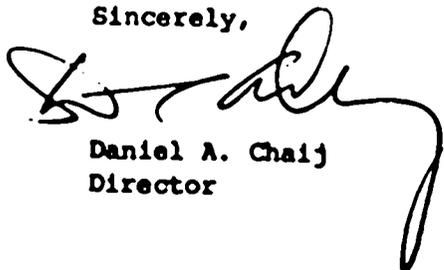
This is in reference to your letter dated February 20, 1986 sent to Mr. Vinzenz Schmack of the Office of the Private Sector, requesting our authorization to finance with AID Grant Funds the professional services of Mr. James W. Johnson, a volunteer executive with the International Executive Service Corps (IESC), for an amount of C250,000 (two hundred and fifty thousand colones).

We consider that the assistance that Mr. Johnson can provide to the PIC will be important in the areas of equity and credit analysis since he has valuable experience in the banking sector. You also mentioned in your letter that the costs will be shared on an equal basis with CINDE and your share amounts to C250,000.00.

Therefore, you are hereby advised that your request is authorized to finance with Project Grant Funds Mr. Johnson's services for the purposes stated in your letter.

As before, we request that you send us a copy of the duly executed contract when requesting the reimbursement of funds. We will charge this expense to category 2 (Investment/Technical Assistance) of the Grant Project.

Sincerely,



Daniel A. Chaij  
Director



AGENCIA PARA EL DESARROLLO INTERNACIONAL

MISION ECONOMICA DE LOS ESTADOS UNIDOS EN COSTA RICA

APR 01 1986

Apartado Postal 10033  
1000 San José, Costa Rica  
Teléfono 33-11-33  
Telex 3350 AIDCR KR

March 14, 1986

Mr. José Ochoa  
Managing Director  
Corporación Privada de Inversiones  
de Centroamérica, S.A.  
San José

REF: Project AID 515-0204  
Grant Implementation Letter No. 3

Dear Mr. Ochoa:

We acknowledge receipt of your letter dated February 18, 1986 sent to Mr. Vinzenz Schmack of the Office of the Private Sector, requesting our authorization to finance with AID Grant Funds, the professional assistance of Mr. Paul L. Daum, for a maximum amount of \$18,000 (eighteen thousand dollars).

We agree that the proposed financing is consistent with the Project's objectives in that Mr. Daum will provide valuable technical assistance to the three different flower projects. This type of technical assistance is vital to the success of these projects and consequently vital for the PIC.

Therefore, you are hereby advised that your request is authorized to utilize a maximum of \$18,000 to contract the services of Mr. Daum for the purposes stated in your letter.

We request you send us a copy of the signed contract between the PIC and Mr. Daum when requesting the reimbursement of funds. We will charge this expense to category 2 (Investment/Technical Assistance) of the Project Grant Funds.

Sincerely

Daniel A. Chaij  
Director

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AGENCIA PARA EL DESARROLLO INTERNACIONAL  
MISION ECONOMICA DE LOS ESTADOS UNIDOS EN COSTA RICA

APR 0 1 1986

Avenida Postal 10033  
1000 San José, Costa Rica  
Teléfono 33-11-35  
Telex 3550 AIDCR CR

February 26, 1986

Mr. José Ochoa  
Managing Director  
Corporación Privada de Inversiones  
de Centroamérica, S.A.  
San José

REF: Project AID 515-0204  
Grant Implementation letter No.2

Dear Mr. Ochoa:

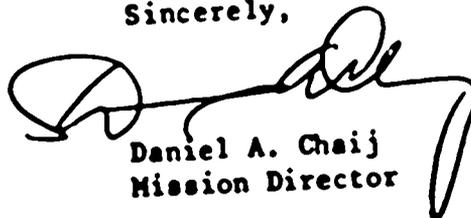
We acknowledge receipt of your letter dated January 13, 1986, sent to Vinzenz Schmack of the Office of the Private Sector requesting our authorization to finance with AID Grant Funds for an amount of C300,000 (three hundred thousand colones) the design and implementation of a computerized financial control system.

We agree that the use of the technical assistance of Price Waterhouse is consistent with the Project's objectives and with your decision to use Grant Funds for this purpose. As stated in the Loan Agreement Annex I, Section VI, B, institutional development is vital in the success of a project like the PIC.

Therefore, you are advised that your request is authorized to contract Price Waterhouse for the purposes stated in your letter.

We request that you send us a copy of the duly executed contract between PIC and Price Waterhouse when requesting the reimbursement of funds. We will charge this expense to category 2 (Investment/Technical Assistance) of the Grant Project.

Sincerely,



Daniel A. Chaij  
Mission Director

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AGENCIA PARA EL DESARROLLO INTERNACIONAL  
MISION ECONOMICA DE LOS ESTADOS UNIDOS EN COSTA RICA

APR 01 1986

Apartado Postal 10033  
1000 San José, Costa Rica  
Teléfono 33-11-32  
Telex 3550 AIDCR CR

February 28, 1986

Mr. José Ochoa  
Managing Director  
CORPORACION PRIVADA DE INVERSIONES  
DE CENTROAMERICA, S.A. (PIC)  
San José

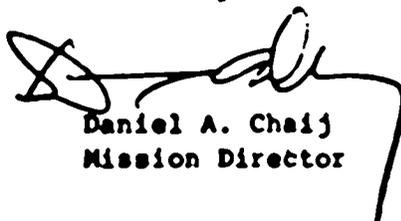
Subject: Private Investment Corporation  
Project No. AID-515-0204  
Grant Implementation Letter No.1

Dear Mr. Ochoa:

We are in receipt of your letter dated February 3, 1986, in which you request authorization to use project grant funds to contract the professional services of Mr. Spence R. Malecha to provide you with technical assistance in analyzing a shrimp project.

The requested technical assistance is consistent with the project's objectives and we therefore approve your request for a total amount of \$4,140.00 (four thousand one hundred and forty dollars) as per budget submitted to us which we adjusted to a per diem of \$70.00 (seventy dollars) authorized for Costa Rica. Please submit to us with your request for reimbursement the executed contract between PIC and Mr. Malecha. We will charge this expense to the category Project Evaluation of the Grant Budget.

Sincerely,



Daniel A. Chaij  
Mission Director