

A.I.D. Loan No. 517-T-066

Project Number 517-0214

LOAN AGREEMENT
Between
THE DOMINICAN REPUBLIC
and
THE UNITED STATES OF AMERICA
for
COMMERCIAL FARMING SYSTEMS
BRIDGE CREDIT FUND

Dated: SEP 15 1987

CONFORMED COPY

BEST AVAILABLE DOCUMENT

LOAN AGREEMENT

Dominican Republic - Commercial Farming Systems
Bridge Credit Fund Component
Project No. 517-0214
A.I.D. Loan Number 517-T-066

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ANNEX 1: Definition of the Project

ANNEX 2: Standard Provisions Annex

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LOAN AGREEMENT dated SEP 15 1987, between the DOMINICAN REPUBLIC ("Borrower"), acting through the Technical Secretariat of the Presidency ("TSP"), and the UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D.").

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 Borrower of the Project described below, and with respect to the financing of such Project by the Parties.

ARTICLE II

The Project

SECTION 2.1 Definition of Project. The Project, which is further described in Annex 1, will consist of assistance to the Borrower for the establishment of a Fund in the Reserve Bank of the Dominican Republic ("Depository Bank") to finance, using qualified financial institutions, a program to increase the production of non-traditional crops by small farmers associated with agribusinesses. Within the limits of the above definition of the Project, 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

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amendment of this Agreement. The "Project", as used in the text of this Agreement, is one component of the Commercial Farming Systems Project referred to in Annex I.

SECTION 2.2 Incremental Nature of the Project.

(a) A.I.D.'s contribution to the Project 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 Borrower, may specify in Project Implementation Letters appropriate time periods for the utilization of funds provided by A.I.D. under an individual increment and the disbursement of such funds.

(c) Subject to Section 2.2(a), the total amount of A.I.D. assistance contemplated for this Project is Ten Million United States Dollars (US\$10,000,000).

(d) Ratification of this Agreement by the Congress of the Dominican Republic shall constitute Congressional approval of the above-mentioned total loan amount, and no further Congressional approval shall be required by reason of increments under Section 3.1 of this Agreement provided the total amount does not exceed the total stated in this Section.

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ARTICLE III

Financing

SECTION 3.1 Schedule. To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees that the Borrower may request to borrow under the terms of this Agreement an amount not to exceed Ten Million United States Dollars (US\$10,000,000) (the "Loan"), three million dollars (US\$3,000,000) of which shall be disbursed in accordance with this Agreement and the balance to be disbursed as subsequent increments in accordance with Section 2.2 and subject to the conditions therein set forth, including the availability of funds and the mutual agreement of the Parties with respect to the subsequent increments. The aggregate amount of disbursements under the Loan is referred to as "Principal." The Loan 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 Borrower Resources for the Project

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

(b) The resources provided by the Borrower for this component of the Project will be not less than the equivalent of Two Million Five Hundred Thousand United States Dollars (US\$2,500,000),

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including costs borne on an "in-kind" basis.

SECTION 3.3 Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is June 30, 1992 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 Loan will have been performed and all goods financed under the Loan 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 Loan 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 Borrower, may at any time or times reduce the amount of the Loan 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.

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ARTICLE IV

Loan Terms

SECTION 4.1 Interest. The Borrower will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for the first five (5) years following the date of the first disbursement hereunder, at the rate of three percent (3%) per annum for the next five (5) years, and at the rate of five percent (5%) 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, 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 hereunder, on a date to be specified by A.I.D.

SECTION 4.2 Repayment. The Borrower will repay to A.I.D. the Principal within twenty five (25) years from the date of the first disbursement of the loan in thirty one (31) approximately equal semiannual 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 Borrower 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

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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 Borrower 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 Borrower 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 there is any significant and continuing improvement in the internal and external economic and financial position and prospects of the Borrower, which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.1, 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,

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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 subsection (c). The negotiation will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the Office of the Secretary of Finance of the Dominican Republic.

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 under it will cease.

ARTICLE V

Conditions Precedent to Disbursement

SECTION 5.1 First Disbursement. Prior to first disbursement of the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of legal counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(b) A statement of the name of the person holding, or acting in the office of the Borrower specified in Section 9.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(c) A description of the mechanism within the office of the TSP by which the TSP shall perform its functions under this Agreement and under its contract with the Depository Bank;

(d) Evidence that the Depository Bank has the administrative and financial management capabilities required to comply satisfactorily with its responsibilities under the contract with the Technical Secretariat of the Presidency;

(e) A copy of the contract between the Technical Secretariat of the Presidency and the Depository Bank, which fully describes the responsibilities of the Depository Bank; the systems, criteria, procedures and reports to be employed; the fee arrangements; and the structure of rates of interest to be used at all levels in the program;

(f) A copy of the model contract to be utilized between the Depository Bank and the Participating Financial Institutions (PFIs) which describes the terms, conditions and procedures by which the PFIs will gain access to project funds for their lines of credit; and

which describes standard provisions to be contained in agreements between the PFI and their agribusiness borrowers;

(g) A project reporting plan that specifies the content and frequency of reports that will be provided by the PFIs to the Depository Bank, by the Depository Bank to the Technical Secretariat, and by the Technical Secretariat to A.I.D.

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

SECTION 5.3 Terminal Dates for Conditions Precedent. If all of the conditions specified in Section 5.1 have not been met within sixty (60) 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 Borrower.

ARTICLE VI

Special Covenants

SECTION 6.1 Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties may otherwise agree in writing, the program will include, during the implementation of the Project and at its conclusion: (a) evaluation of progress toward attainment of the objectives of the Project; (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

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feasible, of the overall development impact of the Project.

SECTION 6.2 Evaluation Plan. Except as A.I.D. may otherwise agree in writing, the Borrower will prepare and submit in form and substance acceptable to A.I.D., within 12 months of the signing of this Agreement, a time phased plan for evaluation described in Section 6.1. The costs of evaluations shall be paid from the Fund, which includes the contributions of A.I.D. and the Borrower and any interest earned thereon, in the manner indicated in Annex I.

SECTION 6.3 Support of Commercial Farming. Except as A.I.D. may otherwise agree in writing, the Borrower:

(a) Agrees to review with A.I.D., and adjust as needed, the structure of interest rates for the lines of credit and subloans under the Project at least once each year within the guidelines established by the Monetary Board and recognizing the prevailing conditions in Dominican financial markets;

(b) Agrees, over the repayment period of the Loan, to require the Depository Bank or its successor to utilize the principal repayments made by the PFIs for lines of credit which meet the original purpose and objectives of the Project;

(c) Agrees that all contracts between the Technical Secretary of the Presidency and the Depository Bank, between the Depository Bank and Participating Financial Institutions, and (for loans in excess of the equivalent of US\$5,000) between the PFIs and their agribusiness borrowers, shall provide that (1) Loan funds will not be

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used for projects involving the production or processing for export of sugar, citrus, and african palm oil; for severe chemical treatments such as used in tanneries; for extensive land clearing or road construction in hillside areas; for the production of rice; or for the purchase of other "ineligible commodities", including pesticides, for which A.I.D. shall have given advance written notice; and (2) the source, origin and nationality requirements in Article VII below are complied with by all Parties.

(d) Agrees to take the necessary steps consistent with guidance to be furnished by A.I.D. to assure that funds made available under this Agreement are not used by the agribusiness borrowers to increase agricultural exports to countries other than the United States where those exports would cause substantial injury to U.S. exporters of a similar agricultural product.

SECTION 6.4 Annual Audits. The Parties agree to establish a plan of outside audits for the Project, the cost of which shall be paid from the Fund, which includes the contributions of the Parties, and any interest earned on the principal, in the manner indicated in Annex I. An independent audit firm, acceptable to A.I.D., will be contracted by TSP each year to perform a financial and compliance audit in accordance with U.S. Government audit procedures. The Borrower will provide every reasonable assistance to facilitate the performance of these audits and will provide copies of the complete audit reports to A.I.D. on a timely basis. In addition, on request, TSP shall direct the auditors to provide any additional

reasonable supporting documentation or information requested by A.I.D.

ARTICLE VII

Procurement Source

SECTION 7.1 Foreign Exchange Costs. Disbursements pursuant to Section 8.1 will be used exclusively for the purposes specified in Annex I and to finance the costs of goods and services required for the Project having with respect to goods, their source and origin, and with respect to suppliers of services their nationality 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 ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex. Ocean transportation costs will be financed under the loan only on vessels under flag registry of the Borrower, the United States, and other countries included in A.I.D. Geographic Code 941, 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 for the purposes specified in Annex I and to finance the costs of goods and services required for the Project having their source and their origin in the Dominican Republic ("Local Currency Costs"), except as A.I.D. may otherwise agree in writing.

ARTICLE VIII

Disbursements

SECTION 8.1 Disbursement for Foreign Exchange Costs

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this 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 Borrower'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 Letter 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 for such goods or services.

(b) Banking charges incurred by the Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be

financed under the Loan.

SECTION 8.2 Disbursement for Local Currency Costs.

(a) After satisfaction of Conditions Precedent, the Borrower may obtain disbursements of funds under the Loan 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 or from Local Currency already owned by the U.S. Government; or

(2) by A.I.D. (a) requesting the Borrower to make available the local currency for such costs, and (b) thereafter making available to the Borrower through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Borrower or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available by the Borrower, 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 Loan may also be made through other means as the Parties may agree to in writing.

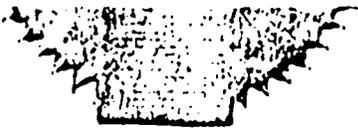
SECTION 8.4 Rate of Exchange. Except as may be more specifically provided under Section 8.2, if funds provided under the Loan are introduced into the Dominican Republic by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of the Dominican Republic at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Dominican Republic.

SECTION 8.5 Date of Disbursement. Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order; or (b) on the date on which A.I.D. disburses to the Borrower 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.

acting in the office of Technical Secretary of the Presidency and A.I.D. will be represented by the individual holding or acting in the office of the Director, 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 Borrower 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 "Project Loan Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

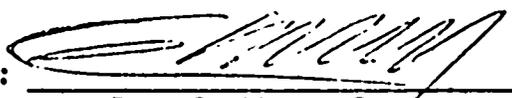
SECTION 9.4 Language of Agreement. This Agreement is prepared in both English and Spanish. In the event of ambiguity or conflict between the versions, the English language version will control.

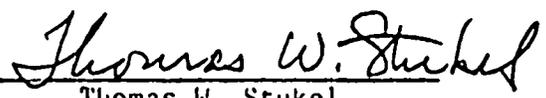


IN WITNESS WHEREOF, the Dominican Republic and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in two originals in their names and delivered as of the day and year first above written.

FOR THE GOVERNMENT OF
THE DOMINICAN REPUBLIC:

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

BY: 
Ing. Guillermo Carrau

BY: 
Thomas W. Stukel

TITLE: Technical Secretary to
the Presidency

TITLE: Director, USAID Mission
to the Dominican Republic

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ANNEX 1

PROJECT DESCRIPTION Commercial Farming Systems: Bridge Credit Fund

A. Goal and Purpose

The goal of the Commercial Farming Systems Project is to contribute to sustained and equitably distributed economic growth in the Dominican Republic by accelerating the movement of the agricultural sector into non-traditional crops, thereby increasing small farmer incomes and rural employment, and earning or saving foreign exchange. The purpose of the Project is to increase production of non-traditional crops through expanded farmer linkages with agribusinesses and direct access to credit and improved technology.

This Annex describes the Bridge Credit Fund component of the Commercial Farming Systems Project. The other components are covered by separate agreements, and include a grant-funded technical assistance activity with the Rural Savings Mobilization Office of the Central Bank, and a grant for agricultural technology development to the Agricultural Development Foundation.

B. Bridge Credit Fund

1. Objective and General Description

The Bridge Credit Fund (the "Fund") is one component of the Commercial Farming Systems Project. The Fund, or Project funds, as used in this description, includes the contributions of AID and the GODR, and any interest earned on that principal. USAID will make a loan of US\$10 million to the GODR to help create the Fund which will function as described below. The GODR will provide in local currency the equivalent of US\$2.5 million in counterpart to initiate the Fund. By the end of the Project, the Fund is expected to increase the incomes and commercial farming experiences for approximately 6,000 farmers.

Loans will be channelled to agribusinesses that draw a significant percentage of their raw materials (measured by value) from these farmer-outgrowers. Utilizing the loans provided under the Fund, the agribusinesses will be able to provide support to the outgrowers (commonly called "bridge credit") in the form of cash, inputs such as feed, fertilizer and pesticides, and services such as land preparation and/or technical advice by trained agronomists or horticulturists. At the end of the cropping period, the agribusinesses will calculate the balance of credit extended to the farmer-outgrowers against the purchase price of the production that was accepted for packing or processing by the firm, and will settle accounts accordingly.

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2. Levels of Participation

The Fund will involve the following operational levels: AID and the GODR will make local currency funds available to the Banco de Reservas, which will be the Depository of the funds, with primary responsibility for implementation of the program. Using such resources, the Depository Bank will extend lines of credit to various participating financial institutions (the "PFIs"). Each of the PFIs, in turn, will make loans available to private Dominican and joint venture agribusiness enterprises which use small farmer outgrowers to produce non-traditional agricultural, aquacultural or livestock products primarily produced for export or to substitute for imports.

3. Operation of Fund

Subject to the more specific agreement of the Parties which will be described in Project Implementation Letters, the Fund will be established in accordance with the following general description:

a. Loans for Agribusiness Borrowers

PFIs will make loans to their agribusiness customers for use as bridge credit to farmer-outgrowers as described below. AID and the TSP will agree upon standard contractual terms which will be included in documentation covering such loans, including but not limited to requirements conforming to AID procurement regulations, reporting requirements, and audit rights. The agribusiness borrowers must employ the proceeds of their loans to supply production inputs and cash (for production related expenses) to farmers with whom the borrowers have contracted for raw material supplies.

b. Lines of Credit for Participating Financial Institutions

Each of the PFIs will contract directly with the Depository Bank to open a line of credit under which funds could be drawn for immediate disbursement for the funding requirements of the agribusiness customer loans. The standard contractual terms governing such lines of credit will be subject to the mutual approval of AID and the TSP. Using analysis and recommendations made initially by the Depository Bank, AID and the TSP shall jointly decide which PFIs are qualified to apply to the Fund, and the limits placed on their lines of credit. The TSP and AID will seek to allow a sufficiently broad number of institutions to participate in order to encourage competition and to learn from the variety of experiences and approaches involved.

c. Contract With Depository Bank

The Banco de Reservas will establish procedures acceptable to TSP and AID to receive and disburse both AID and GODR funds contributed to the Fund. The TSP will contract directly with the Depository Bank for this purpose. AID shall have approval rights concerning the terms and conditions of this contract. The duties of the Depository Bank will be set forth in such

contract and will include, but are not limited to, the following:

- (1) Evaluate and make recommendations to the TSP concerning the banks which wish to become PFIs;
- (2) Make recommendations to the TSP concerning the levels of the various credit lines to be opened for the PFIs and the terms thereof;
- (3) Contract directly with approved PFIs to establish the lines of credit available to them, based on a standard contract that has been jointly approved by AID and the TSP;
- (4) Develop and supervise adequate audit and evaluation of PFI activities, and provide audit reports to TSP on a routine and timely basis; and
- (5) Report periodically to the TSP concerning the status of loans made by the PFIs and the use of loan funds by the agribusiness customers, the frequency and format of such reports to be specified by the TSP.

The compensation of the Depository Bank will be established with the mutual approval of AID and the TSP. It will be reasonable in amount and funded, to the extent possible, by the interest paid by the PFIs.

d. Disbursement of AID and Host Country Resources.

The Bridge Credit Fund will be composed of the local currency equivalent of US\$12,500,000 (US\$10,000,000 from AID and the equivalent of US\$2,500,000 from GODR resources) and any interest earned on such principal. These funds will be disbursed in the following manner:

- (1) The GODR will make an initial contribution of local currency equivalent to US\$2,500,000 to the Fund, which will be retained in an interest bearing account by the Depository Bank, of which the equivalent of US\$300,000 shall be available for audit and evaluation expenses.
- (2) The Depository Bank will thereafter solicit initial loan applications from the PFIs.
- (3) AID will disburse, through such procedures as shall be mutually agreed upon, local currency in an amount sufficient to fund such loans. AID shall continue to fund all subsequent approved loans to PFIs up to a total of the equivalent of US\$10,000,000; and
- (4) The Depository Bank shall be required to utilize not more than the equivalent of US\$2,200,000 of the equivalent of US\$2,500,000 on account to temporarily fund PFI loan requests pending actual receipt of the disbursements of AID funds to be used for

permanent funding. Following AID disbursements totalling US\$10,000,000, the Depository Bank shall use the equivalent of US\$2,200,000 and principal and interest payments by PFIs (net of fees and expenses as specified in the Depository Bank's contract with the TSP) for subsequent PFI loan requests.

e. Loan Approval

Once standard contract terms have been agreed upon, neither AID nor the TSP shall become involved in the decisions of the Depository Bank regarding PFI loans for funding, nor in the process by which the PFIs solicit and approve agribusiness borrowers for funding. Monitoring will be provided, and audits will be performed under the supervision of the Depository Bank and the TSP once operations begin. It is the intent of the TSP and AID to allow funds to flow promptly to the agribusinesses which are the end users and to assure the PFIs and their customers that funds can be immediately drawn to meet disbursement requests under their respective lines of credit, once established. For this reason, the Depository Bank will retain a working capital reserve of the equivalent of US\$2,500,000 to be invested in such instruments as AID and the TSP may approve, when not otherwise required for temporary loan funding as above described. Interest earned will be relent in the same manner as principal.

f. Interest Rates

AID and the TSP, using the recommendations of the Depository Bank, will jointly agree upon interest rate provisions applicable to each level of the program. It is the intent of the parties that loans be extended to agribusiness at interest rates which approximate market rates. This structure of interest rates will be subject to periodic review and adjustment by AID and the TSP.

g. Disposition of Funds at Project End

The funds and/or loan assets held by the Depository Bank at the time the AID loan is fully repaid shall be used for such purposes as the TSP or its successor shall direct.

4. Audit and Evaluation Requirements.

The TSP will establish an audit plan as part of the Bridge Credit program. There will be at least three general audit areas, all financed by the Fund: audits of the Depository Bank; audits of PFI performance, and audits of bridge credits extended by the PFI borrowers.

Project evaluations will be carried out by TSP and/or AID, and will include but not be limited to: (a) evaluation of progress toward achievement of the purpose of the Fund (6,000 outgrowers financed); (b) identification and evaluation of problem areas or constraints which may be inhibiting progress; (c) assessment of how problems may be overcome; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

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The TSP will prepare and submit to AID within 3 months of the signing of this Agreement a time phased plan for the audits and evaluations described above. AID reserves the right, independently from the above, to carry out such additional audits and evaluations as it deems necessary to ensure the successful implementation and impact of this Project.

C. Inputs

1. A.I.D. Resources

Bridge Credit Fund (US\$10,000,000) The Depository Bank will on-lend credits to private firms through local commercial and development banks. The participating banks (which in turn finance the agribusinesses) will on-lend at a rate approaching market terms, established by the Monetary Board in consultation with TSP and USAID.

2. GODR Resources*

Bridge Credit Fund (Equivalent of US\$2,500,000): The Government of the Dominican Republic will provide counterpart funds to initiate the Bridge Credit Fund. These will be on-lent under the same terms as the A.I.D. contribution, except that the equivalent of JS\$300,000 of these funds will be available for audit and evaluation expenses until such time as interest earned by the Depository Bank equals the amount of such costs. The rate of exchange used to establish the peso equivalent will be determined on the day the contribution is made, at the highest rate that is not unlawful at that time.

D. Financial Plan

Table 1 on the following page shows the financial plan for this component of the project. Counterpart contributions of the GODR will be in pesos, computed at the highest rate that is not unlawful at the time of contribution.

E. Methods of Implementation and Financing

Table 2, attached, shows the implementation method that will be used, and the way funds will be administered for this component.

* See footnote on Table 1.

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Table 1
 COMMERCIAL FARMING SYSTEMS Bridge Credit Fund
 SUMMARY COST ESTIMATE AND FINANCIAL PLAN (US\$000)

Input	YEAR 1			YEAR 2			YEAR 3			YEAR 4			YEAR 5			TOTAL		
	A.I.D.	CP		A.I.D.	CP		A.I.D.	CP		A.I.D.	CP		A.I.D.	CP		AID	Counterpart	
	FX	LC	LC	FX	LC	LC	FX	LC	LC	FX	LC	LC	FX	LC	LC			
Bridge Credit Fund		3,333	2,500 ⁽¹⁾		3,333				3,334								10,000	2,500

(1) Of the equivalent of US\$2,500,000 in counterpart, an amount equivalent to US\$300,000 shall be available for audit and evaluation costs until such time as interest paid by PFIs is sufficient to cover such costs.

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Table 2
 COMMERCIAL FARMING SYSTEMS: Bridge Credit Fund
 METHODS OF IMPLEMENTATION AND FINANCING
 (AID Inputs)

<u>Type of Assistance</u>	<u>Implementation Method</u>	<u>Financing Method</u>	<u>Cost (US\$000)</u>
<u>Bridge Credit Loan</u>	ICI	Direct Pay	10,000.00
TOTAL			10,000.00

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A.I.D. LOAN AGREEMENT STANDARD PROVISIONS

Definitions: As used in this Annex, the "Agreement" refers to the Loan 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 1.

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:

1) 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

2) 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.

1) Any resources financed under the Loan 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 objective sought in carrying out the Project.

2) Goods or services financed under the Loan, 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.

1) This Agreement and the Loan 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 the Borrower.

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

3) Ratification of this Agreement by the Congress of the Dominican Republic shall constitute Congressional approval of and authorization for the inclusion of the above-described exemptions in contracts to be financed hereunder, and no further Congressional approval or authorization for such contracts by reason of the inclusion of such exemptions shall be required.

SECTION B.5 Reports, Records, Inspections, Audit. The Borrower will:

- 1) Furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;
- 2) 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 Loan. 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
- 3) Afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Loan.

SECTION B.6 Completeness of Information. The Borrower confirms:

- 1) 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 Loan, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;

2) 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 the discharge of responsibilities under this Agreement.

SECTION B.7 Other Payments. 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 Loan except fees, taxes, or similar payments legally established in the Dominican Republic.

SECTION B.8 Information and Marking. The Borrower will give appropriate publicity to the Loan and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed under A.I.D., as described in Project Implementation Letters.

ARTICLE C

Procurement Provisions

SECTION C.1 Special Rules.

1) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

2) Premiums for marine insurance placed in the Dominican Republic will be deemed and eligible Foreign Exchange Cost, if otherwise eligible under Section C.7.(1).

3) Any motor vehicles financed under the Loan will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

SECTION C.2 Eligible Date. No goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into, prior to the date of this Agreement, 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.

- 1) The Borrower will furnish to A.I.D. upon preparation:
 - a) Any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Loan, including documentation relating to the prequalification 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;
 - b) Such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed under the Loan, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (1)(b) will be identified in Project Implementation Letters;
- 2) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Loan will be approved by A.I.D. in writing prior to their issuance of same, and their terms will include standards and measurements commonly used in the United States;

3) Contracts and contractors financed under the Loan for engineering and other professional services, for construction services, and for such other 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

4) Consulting firms used by the Borrower for the Project but not financed under the Loan, 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 Loan 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 Loan. 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 Loan, 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.

1) Goods which are to be transported to the Dominican Republic may not be financed under the Loan if transported either:

a) 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

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

c) Under an ocean or air charter which has not received prior A.I.D. approval.

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

a) On an ocean vessel under the flag of a country not, at the time of shipment, identified under Section 7.1 of Agreement, unless A.I.D. had previously approved it; or

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

c) Under an ocean vessel or air charter which has not received prior A.I.D. approval.

3) 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:

a) 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

b) At least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the Dominican Republic 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 (a) and (b) 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

1) Marine insurance on goods financed by A.I.D. which are to be transported to the Dominican Republic may be financed as a Foreign Exchange Cost under this Agreement provided:

a) Such insurance is placed at the lowest available competitive rate, and

b) Claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the 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 Dominican Republic 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.

2) Except as A.I.D. may otherwise agree in writing, the Borrower will insure, or cause to be insured, goods financed under the Loan

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 Loan, should be utilized. Funds under the Loan may be used to finance the costs of obtaining such property for the Project.

ARTICLE D

Termination and Remedies

SECTION D.1 Cancellation by Borrower. The Borrower may, by giving A.I.D. 30 days written notice, cancel any part of the Loan 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 Borrower shall have failed:

1) To pay when due any interest or installment of Principal required under this Agreement, or

2) To comply with any other provision of this Agreement, or
3) 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 unpaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:

a) Such unpaid Principal and accrued interest hereunder will be due and payable immediately; and

b) 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:

1) An Event of Default has occurred; or

2) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower will be able to perform its obligations under this Agreement; or

3) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

4) 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:

- 1) 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;
- 2) Decline to issue additional commitment documents or to make disbursements other than under existing ones; and
- 3) At A.I.D.'s expense, direct that title to goods financed under the Loan be transferred to A.I.D. if the goods are from a source outside the Dominican Republic, are in a deliverable state and have not been offloaded in ports of entry of the Dominican Republic. 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 Loan 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.

SECTION D.6 Refunds.

- 1) 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

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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. The right 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.

2) Any refund under the preceding subsection, or any refund to A.I.D. from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Loan, which refund relates to an unreasonable price for or erroneous invoicing of goods or services or to goods that did not conform to specifications, or to services that were inadequate, will:

a) Be made available first for the cost of goods and services required for the Project, to the extent justified, and

b) The remainder, if any, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan reduced by the amount of such remainder.

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.

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