



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

Proj No. 5200173  
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13p.

UNITED STATES COORDINATOR

ALLIANCE FOR PROGRESS

PD AAA-885-A1

A.I.D. Loan No. 520-L-013  
(Ref: AID-DLC/P-575)  
Project Activity No. 520-  
24-230-173

LOAN AUTHORIZATION (AMENDED)

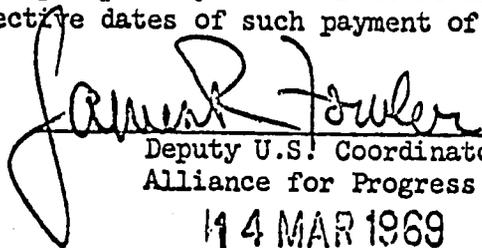
Provided from: Alliance for Progress Loan Funds  
GUATEMALA: Financiera Industrial y Agropecuaria, S. A. (FIASA)

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, Agency for International Development, ("A.I.D."), by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby amend the Alliance for Progress Loan Authorization for A.I.D. Loan No. 520-L-013, signed June 23, 1967, to delete paragraph 1(b) in its entirety and substitute therefor the following:

"If the Government or the Bank of Guatemala ("Bank") shall so elect, the borrower shall fulfill its dollar obligation under the loan by paying to the Government or the Bank, as the case may be, in the currency of Guatemala the equivalent, determined as of a time and in a manner satisfactory to A.I.D., of the United States dollar amounts payable to A.I.D. under (a) above, and whereby the Government or the Bank shall pay to A.I.D.:

- (i) The equivalent in United States dollars, determined as of a time and in a manner calculated to obtain repayment of all dollars disbursed plus interest, of all amounts paid to the Government or the Bank, by Borrower as follows:
  - a. All interest immediately upon receipt subject to Government's or Bank's right to retain all payments in excess of one (1) percent per annum during a grace period of not to exceed ten (10) years from the first disbursement under the loan ("Government or Bank grace period");
  - b. Principal within forty (40) years, including the Government or Bank grace period.
- (ii) Interest in United States dollars of one (1) percent per annum during the Government or Bank grace period, and two

and one-half (2 1/2) percent per annum thereafter, on all amounts of outstanding principal paid by Borrower to Government or Bank from the respective dates of such payment of principal."

  
Deputy U.S. Coordinator  
Alliance for Progress

14 MAR 1969

Date

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

UNCLASSIFIED

AID-DLC/P-575/2  
March 6, 1969

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

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

Attached for your review is a proposal to amend the authorization on the subject loan to provide that the Two Step provision may be at the option of the Government of Guatemala or the Bank of Guatemala. The Mission Director in signing Implementation Letter No. 1 morally, if not legally, committed A.I.D. to seriously consider waiving the Two Step provision. In addition, the merits of the case speak for themselves.

Rachel C. Rogers  
Assistant Secretary  
Development Loan Committee

Attachments:

Action Memorandum for the Deputy U.S. Coordinator  
Alliance for Progress  
Proposed Amended Loan Authorization

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## ACTION MEMORANDUM FOR THE DEPUTY U.S. COORDINATOR

FROM : LA/DR/Frank B. Kimball

FB Kimball

SUBJECT: FIASA (Private Development Bank) Guatemala  
A.I.D. Loan 520-L-013

PROBLEM: On June 23, 1967, A.I.D. authorized a loan of \$5 million to FIASA, a private development bank in Guatemala. The authorization required that GOG accept the Special Payment provision ("Two Step") as a condition precedent to initial disbursement rather than as an option which is customarily the case in other A.I.D. loans. USAID has requested ammendment of this authorization so that the Two Step provision may be at the option of GOG or Bank of Guatemala.

BACKGROUND: USAID has advised (Guatemala 501, February 7, 1969) that GOG is not prepared to proceed with the Special Payment provision for the FIASA loan at this time in view of the growing difficulty in obtaining legislative ratification of external loans four of which (including A.I.D.'s Primary Education and IBRD's Secondary Education loans) are presently awaiting ratification. Placing the FIASA loan before the Guatemalan legislature for consideration at this time, according to the Minister of Finance, would complicate the ratification of these other loans, all of mutually agreed higher priority for Guatemalan development.

Past delay in presenting the FIASA loan to the legislature results from delay within the Guatemalan bureaucracy in establishing the financiera's "juridical personality". Congressional consideration of accepting the Two Step provision could not be undertaken until this legal existence had been established; this finally occurred December 14, 1968.

USAID has explored the possibility that the Bank of Guatemala would assume the role of GOG for purposes of accepting the Two Step procedure; this possibility is attractive at this time particularly, as the Bank could formalize such a procedure without seeking congressional ratification.

The Regional Legal Advisor, after consulting with the Bank's legal counsel, advises that the Bank of Guatemala is legally empowered to enter into international financial transactions and that its obligations are backed by the government. Thus, signature of a Payment Agreement by the Bank has the effect of a full faith and credit obligation of GOG.

ACTION MEMORANDUM FOR THE DEPUTY U.S. COORDINATOR

2

Since GOG action on the Two-Step is the only remaining unsatisfied condition to disbursement, and since timely Guatemalan legislative action is unlikely, USAID expressed the fear that the FIASA investor group may break up in the face of further delays.

DISCUSSION: On the same date the loan agreement was signed, September 26, 1967, USAID advised the Borrower that A.I.D. was willing to consider a "review (of) the situation to determine whether this Condition should be modified or waived." The condition referred to is that which requires GOG execution of the Two-Step provision as a condition precedent to initial disbursement. This advisement by USAID which appears under Section 3.1(f) of Implementation Letter No. 1 had LA/GC clearance. Based in part on this representation of Implementation Letter No. 1, FIASA share subscribers committed approximately \$1 million of local equity contribution to an escrow deposit account and expended substantial additional sums for stamp, license, legal and organizational costs.

At no time during the extensive discussion during the development of the project was the Borrower advised that execution of the Two-Step feature had to be a condition precedent to disbursement. The decision to make the Two-Step mandatory was reached at a DLSC meeting on June 2, 1967. The making of the Two-Step mandatory was proposed by ARA/LA following and based on discussions among ARA/LA, PC, and DFPE concerning general problems relating to loan terms. Also, concern was expressed about the additional strain upon Guatemala's future foreign exchange position if the Two-Step was not applied. In view of the above and the Latin American Bureau's feeling that the Guatemalan Government would probably accept the Two-Step procedure, the DLC concurred in the proposed loan on June 19, 1967, on the understanding that the Two-Step would be applied. In requiring GOG action on the Two-Step provision, DLSC reasoned that the strain on Guatemalan foreign exchange reserves would be minimized by stretching out repayment over the most concessional forty year period.

While the concern of DLSC with host country balance of payments situation is well founded, its expression, in the form of mandatory Two-Step action, is not consistent, since A.I.D. loans both prior and subsequent to the FIASA project have been made to private financieras in Central America without making government acceptance of the Two-Step procedure obligatory prior to disbursement. These loans have been made in countries whose economic circumstances are either not dissimilar to or are more critical than that of Guatemala; but only in the FIASA loan did DLSC's concern result in a mandatory rather than optional Two-Step provision. Thus, this requirement is uniquely restrictive in the FIASA instance, and, moreover, it has no relevance to loan repayment prospects or A.I.D. terms to the Borrower.

Further, while the economic logic of DLSC's decision is irrefutable, host government legislatures do not invariably respond on grounds of economic logic but are susceptible to political, bureaucratic and other considerations. Even after the mechanics of the Two Step have been carefully explained and fears that ratification constitutes a government guaranty of the project have been allayed, congressional ratification does not always occur. An example can be seen in the 1964 COFISA loan in Costa Rica; despite signature of Payment Agreements on two occasions with GOCR, the legislature has still not ratified, and the Two Step provision is not yet in effect.

CONCLUSIONS:

1. FIASA accepted USAID's Implementation Letter No. 1 as an A.I.D. commitment to reconsider the mandatory Two Step provision in the event of GOG delays in ratifying a Two Step agreement and, in part on this basis, expended substantial funds and efforts on the project.
2. GOG action on the Two Step provision is clearly beyond the control of the Borrower.
3. The economies of the countries in which either A.I.D. loans to private financieras have been made are not meaningfully firmer, and, in some instances, are weaker than that of Guatemala.
4. Amending the authorization is required to permit commencement of implementation in the immediate future; such amendment will have no effect on the A.I.D. interest rate or terms to FIASA, project viability or the prospects of loan repayment by FIASA.
5. It is reasonable to anticipate that failure to amend the authorization will lead to the collapse of the FIASA investor group or partial or full deobligation of A.I.D. funds. Such cessation or diminution of the project would be directly attributable to A.I.D. inflexibility serving no productive project-related purpose.
6. A.I.D. has made and continues to make loans to private financieras making host government action on the Two Step provision optional rather than mandatory.
7. A legal determination has been made that action by the Bank of Guatemala on the Two Step has the effect of a binding obligation on the GOG. Further, permitting the Bank to accept the Two Step will satisfy DLSC's concern with the Guatemalan economy, since it will permit the Bank to repay on most concessional terms.

RECOMMENDATION: That you sign the attached amendment to the authorization of the FIASA loan. This amendment permits action on the Two Step provision to be at the option of GOG or the Bank of Guatemala.



DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

UNITED STATES COORDINATOR

ALLIANCE FOR PROGRESS

A.I.D. Loan No. 520-L-013  
(Ref: AID-DLC/P-575/2)  
Project Activity No. 520-  
24-230-173

LOAN AUTHORIZATION (AMENDED)

Provided from: Alliance for Progress Loan Funds  
GUATEMALA: Financiera Industrial y Agropecuaria, S. A. (FIASA)

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, Agency for International Development, ("A.I.D."), by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby amend the Alliance for Progress Loan Authorization for A.I.D. Loan No. 520-L-013, signed June 23, 1967, to delete paragraph 1(b) in its entirety and substitute therefor the following:

"If the Government or the Bank of Guatemala ("Bank") shall so elect, the borrower shall fulfill its dollar obligation under the loan by paying to the Government or the Bank, as the case may be, in the currency of Guatemala the equivalent, determined as of a time and in a manner satisfactory to A.I.D., of the United States dollar amounts payable to A.I.D. under (a) above, and whereby the Government or the Bank shall pay to A.I.D.:

- (1) The equivalent in United States dollars, determined as of a time and in a manner calculated to obtain repayment of all dollars disbursed plus interest, of all amounts paid to the Government or the Bank, by Borrower as follows:
  - a. All interest immediately upon receipt subject to Government's or Bank's right to retain all payments in excess of one (1) percent per annum during a grace period of not to exceed ten (10) years from the first disbursement under the loan ("Government or Bank grace period");
  - b. Principal within forty (40) years, including the Government or Bank grace period.
- (11) Interest in United States dollars of one (1) percent per annum during the Government or Bank grace period, and two

and one-half (2 1/2) percent per annum thereafter, on all amounts of outstanding principal paid by Borrower to Government or Bank from the respective dates of such payment of principal."

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Deputy U.S. Coordinator  
Alliance for Progress

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Date



UNITED STATES COORDINATOR  
ALLIANCE FOR PROGRESS

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

A.I.D. Loan No. 520-L-013  
(Ref: AID-DLC/P-575)  
Project Activity No.  
520-24-230-173

LOAN AUTHORIZATION

Provided from: Alliance for Progress Loan Funds  
GUATEMALA: Financiera Industrial y Agropecuaria, S. A. (FIASA)

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

1. Interest and Terms of Repayment.

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

the equivalent, determined as of a time and in a manner satisfactory to A.I.D., of the United States dollar amounts payable to A.I.D. under (a) above, and whereby the Government shall pay to A.I.D.:

- (i) The equivalent in United States dollars, determined as of a time and in a manner calculated to obtain repayment of all dollars disbursed plus interest, of all amounts paid to Government by Borrower as follows:
  - a. All interest immediately upon receipt subject to Government's right to retain all payments in excess of one (1) percent per annum during a grace period of not to exceed ten (10) years from the first disbursement under the loan ("Government grace period");
  - b. Principal within forty (40) years, including the Government grace period.
- (ii) Interest in United States dollars of one (1) percent per annum during the Government grace period, and two and one-half ( $2\frac{1}{2}$ ) percent per annum thereafter, on all amounts of outstanding principal paid by Borrower to Government from the respective dates of such payments of principal.

2. Major Terms and Conditions:

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

3. Conditions Precedent to Initial Disbursement.

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

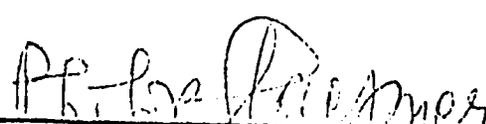
- (a) Evidence that Borrower has been duly organized under the laws of Guatemala, has taken all corporate and legal action required under these laws essential to the validity of Borrower's obligations under the Loan Agreement and the effective implementation of this Project;
- (b) Copies of Borrower's Charter, by-laws and other documents governing the conduct of Borrower's operations, which have been approved by Borrower's Board of Directors;

- (c) Evidence that Borrower has elected a Board of Directors and hired Management, both satisfactory to A.I.D., and has made staffing arrangements, including requisite technical skills, satisfactory to A.I.D.; and
- (d) Evidence that Borrower has subscribed capital of the equivalent of not less than one million two hundred fifty thousand United States dollars (\$1,250,000), and that of this capital not less than the equivalent of three hundred thousand United States dollars (\$300,000) has been paid in to Borrower, and that the subscribers are legally obligated to pay the balance in installments related to the disbursements of the proceeds of this loan in amounts and at times satisfactory to A.I.D.

4. Other Terms and Conditions.

- (a) Unless A.I.D. shall otherwise agree in writing in advance, Borrower shall not:
  - (i) finance sub-projects in whole or in part from disbursements hereunder if such financing would cause its total assistance to any single enterprise to exceed the equivalent of one hundred thousand United States dollars (\$100,000);
  - (ii) make sub-loans of less than three (3) years or more than ten (10) years maturity or charge a rate of interest exceeding twelve (12) percent (including all commissions, fees and other charges) per annum on the disbursed balance of sub-loans;
  - (iii) make disbursements which would cause disbursements of the proceeds of the A.I.D. loan to exceed Borrower's paid-in capital by a ratio of greater than 4 to 1;
  - (iv) make sub-loans to sub-projects or investments to enterprises in which member, or the immediate families thereof, of Borrower's Board of Directors have any financial interest, unless the sub-loan or investment has been approved by a majority of the Board of Directors with the interested Director or Directors not voting;
  - (v) incur any additional indebtedness in excess of the equivalent of one million United States dollars (\$1,000,000), and in any event no indebtedness of Borrower shall enjoy a position senior to this A.I.D. loan;

- (vi) declare or pay any cash dividends on, or make any distributions on account of, any shares of any class of stock of Borrower whether now or hereinafter outstanding exceeding ten (10) percent annually of paid-in capital during the life of the loan, unless any such dividend or distribution in excess of ten (10) percent is matched by an equal prepayment of this Loan in inverse order of maturity of principal payments and is further matched by the retention of an equal amount as earned surplus;
  - (vii) declare any dividends for any fiscal year of the Borrower which exceed the earnings of the Borrower during that same period;
  - (viii) make equity investments totalling in the aggregate more than Borrower's net worth; or
  - (ix) change its Management, by-laws, or any major operating practice or policy.
- (b) Borrower shall maintain a bad debt reserve, independent of other reserves, of not less than two (2) percent per annum on its entire sub-loan and investment portfolio.
  - (c) Unless the Government or the Bank of Guatemala elects to assume the foreign exchange risk for repayment of principal to A.I.D., Borrower shall maintain a reserve against foreign exchange risks to which the proceeds of the loan are subject, under terms satisfactory to A.I.D.
  - (d) Borrower shall submit evidence within two (2) years from the date of the Loan Agreement, in form and substance satisfactory to A.I.D., that the subscribed capital of Borrower of the equivalent of not less than one million two hundred fifty thousand United States dollars (\$1,250,000) has been fully paid in.
  - (e) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

  
Acting Deputy U.S. Coordinator  
Alliance for Progress

June 23, 1967

Date

GC/LA/BSidman:lb 5/24/67

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

UNCLASSIFIED

July 14, 1967

MEMORANDUM FOR THE FILES

SUBJECT: Development Loan Fund  
Guatemala - Financiera Industrial y Agropecuaria, S.A. (FIASA)

In accordance with the Memorandum (AID-ELC/P-575/1), dated May 29, 1967, a telephone poll was concluded on June 19, 1967 confirming that there were no objections to the authorization of a loan in an amount not to exceed \$5,000,000 to the Financiera Industrial y Agropecuaria (FIASA) or the organizers thereof, to assist in financing the creation of a private industrial and agricultural development bank to make loans and equity investments in sub-projects promoting the creation, expansion and more effective operation of private industrial and agricultural enterprises in Guatemala and the other member countries of the Central American Common Market.

The results of the poll were as follows:

State (Mr. Courtney)	No objection
Treasury (Mr. Hirschritt)	No objection
Embark (Mr. Sauer)	No objection
AA/DFEE (Mr. Folk)	No objection

Rachel C. Rogers  
Assistant Secretary  
Development Loan Committee

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