

SEP 21 1977

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~~538-0010~~
5380010(3)

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR (LA)

PD-AAB-983

FROM: LA/DR, Charles E. Weinberg

9 p.

Problem: Authorization of a \$6.5 million loan and a \$225,000 grant (\$450,000 life of project) to finance an FY 1977 Regional Agribusiness Development Project in the Caribbean Region and to negotiate and execute the Project Agreement.

Discussion: The purpose of the project is to increase the capacity of the Caribbean Development Bank (CDB) and the development finance institutions in the Less Developed Countries (LDCs) and Barbados to promote, develop, finance and implement agribusiness and labor-intensive enterprises which are based on the local production and participation of small farmers and the rural poor. Small farmer markets in the LDCs are characterized by problems of fragmentation, low volume, and lack of organization, which are manifested in terms of seasonal and geographical commodity gluts as well as widely-fluctuating low farm-gate prices. The existing market structure for small farmer crops is a major constraint to increasing small farmer production and incomes. By promoting agribusiness investment through the regional and national development finance institutions in the Region, the project can significantly reduce the small farmer marketing constraint.

The project provides AID loan resources to the CDB, and through the CDB, to the LDC development finance institutions to fill the credit gap in the agribusiness and labor-intensive manufacturing enterprise sectors. A limited amount of AID loan funds will also be available through the CDB and the Caribbean Investment Corporation (CIC) for equity investment in enterprises which meet project criteria. The CDB will facilitate the delivery of technical assistance services by identifying specific enterprise needs during project appraisals and by identifying appropriate sources of expertise to meet such needs. In addition, AID grant funds will be made available for adaptive research, commissioned by the CDB, on specific agribusiness technology constraints.

Total project cost is \$7.21 million, which will be expended over a five-year period. AID's contribution consists of a loan of \$6.5 million which is complemented by a \$450,000 grant for agribusiness appropriate technology research (\$225,000 of the grant to be obligated in the first year). The CDB is contributing \$260,000 for technical assistance and the CDB will cover all project administration costs. Because this is a regional program, Section 110(a) of the FAA does not apply.

The authorization includes a waiver to permit the financing of shipping costs on A.I.D. Geographic Code 935 carriers for all shipments for which SER/CM/TR has confirmed that Code 941 carriers are unavailable. Pursuant to AID Handbook 15, Geographic Bureau Assistant Administrators have the authority to approve such a waiver. Approval of a broad waiver, included in the authorization, will permit SER/COM/TR simply to determine non-availability for each shipment. Service to and between islands in the Eastern Caribbean is such that shipping on U.S. Flag and other Code 941 vessels often either requires transshipment, is not available when cargo is ready, or is unsuitable for the loading and unloading methods or containers required. Thus, it is expected that there will be a frequent need for waivers. Furthermore, without these waivers, the Borrower could, as an intermediate credit institution, find itself in the difficult position of having to finance shipping costs for A.I.D. projects out of other bank funds. This situation would not serve the interests either of A.I.D., whose program is designed to assist in developing the financial and institutional capacity of the Bank, or of the CDB, whose other lending programs might thereby be impaired.

We are also requesting that you sign an Action Memorandum (attached) for the Administrator recommending approval of a waiver to allow funds made available to the Special Development Fund of the CDB under the subject loan to be used to procure goods and services having their source and origin in the United Kingdom or Canada, in addition to Geographic Code 941 countries. This waiver request is based on the agreement - under previous AID loans - of the U.K. and Canada to reciprocally untie their contributions to the Fund. If the waiver is granted for the subject loan, the loan agreement will include a condition precedent that, prior to any disbursement or issuance of any commitment document under the loan to finance procurement from sources within either the United Kingdom or Canada, the CDB furnish to A.I.D. evidence that such country has agreed to permit all funds which it provides under the first replenishment agreement subsequent to September 1, 1977, to be used for procurement from sources within the United States.

The grant and loan projects appear on pages 296 and 303, respectively, of the FY 1977 Congressional Presentation. The loan, however, was presented at a funding level of \$5.5 million and the initial year funding of the grant at \$75,000. An Advice of Program Change indicating the increase in project funding was forwarded to Congress on March 15, 1977.

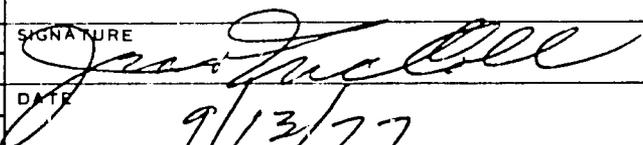
The LA Bureau's Development Assistance Executive Committee reviewed and recommended approval of the project on March 18, 1977. The DLSC approved the project on March 30, 1977.

Recommendation: That you sign the attached Project Authorization and Request for Allotment of Funds (PAF) form for the Regional Agribusiness Development Loan/Grant and the Action Memorandum for the Administrator to approve the waiver.

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS PART I		1. TRANSACTION CODE <input type="checkbox"/> A ADD <input type="checkbox"/> C CHANGE <input type="checkbox"/> D DELETE	PAF 2. DOCUMENT CODE 5
3. COUNTRY/ENTITY CARIBBEAN REGIONAL		4. DOCUMENT REVISION NUMBER <input type="text" value="0"/>	
5. PROJECT NUMBER (7 digits) <input type="text" value="538-0010"/>	6. BUREAU/OFFICE A. SYMBOL LA B. CODE <input type="text" value="5"/>		7. PROJECT TITLE (Maximum 40 characters) <input type="text" value="Regional Agribusiness Development"/>
8. PROJECT APPROVAL DECISION <input type="checkbox"/> A APPROVED <input type="checkbox"/> D DISAPPROVED <input type="checkbox"/> DE DEAUTHORIZED		9. EST. PERIOD OF IMPLEMENTATION YRS. <input type="text" value="0"/> <input type="text" value="5"/> QTRS. <input type="text" value="0"/>	

10. APPROVED BUDGET AID APPROPRIATED FUNDS (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY <u>77</u>		H. 2ND FY <u>78</u>		K. 3RD FY <u>79</u>	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) FN	200-S	968	150	225	6,500	125	-0-	100	-0-
(2)									
(3)									
(4)									
TOTALS				225	6,500	125	-0-	100	-0-

A. APPROPRIATION	N. 4TH FY		Q. 5TH FY		LIFE OF PROJECT		11. PROJECT FUNDING AUTHORIZED	
	O. GRANT	P. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	(ENTER APPROPRIATE CODE(S)) 1 - LIFE OF PROJECT 2 - INCREMENTAL LIFE OF PROJECT	A. GRANT B. LOAN
(1) FN					450	6,500		2 1
(2)								
(3)								
(4)								
TOTALS					450	6,500		C. PROJECT FUNDING AUTHORIZED THRU FY <input type="text" value="81"/>

12. INITIAL PROJECT FUNDING ALLOTMENT REQUESTED (\$000)		13. FUNDS RESERVED FOR ALLOTMENT	
A. APPROPRIATION	B. ALLOTMENT REQUEST NO. <u>1</u>	TYPED NAME (Chief, SER/FM/RSP) <u>FCD</u>	
(1) <u>FN</u>	C. GRANT	D. LOAN	SIGNATURE 
(2)		<u>6,500</u>	DATE <u>9/13/77</u>
(3)			
(4)			
TOTALS			

14. SOURCE/ORIGIN OF GOODS AND SERVICES
 000
 941
 LOCAL
 OTHER _____

15. FOR AMENDMENTS, NATURE OF CHANGE PROPOSED

FOR PPC/PIAS USE ONLY	16. AUTHORIZING OFFICE SYMBOL	17. ACTION DATE	18. ACTION REFERENCE (Optional)	ACTION REFERENCE DATE
		MM DD YY		MM DD YY

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

**ASSISTANT
ADMINISTRATOR**

A.I.D. Loan 538-T-007
(Ref. AID-DLC/P-2221)

PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS

Name of Entity: Caribbean Development Bank

Name of Project: Regional Agribusiness Development
Project Number: 538-0010

Pursuant to Part I, Chapter 1, Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Loan and a Grant to the Caribbean Development Bank ("CDB") of not to exceed Six Million Seven Hundred Twenty-Five Thousand United States Dollars (\$6,725,000) (the "Authorized Amount") to help in financing certain foreign exchange and local currency costs of goods and services required for the project as described in the following paragraph.

The project consists of a regional agribusiness development program designed to increase the capacity of the CDB and institutions in less developed member countries to develop, fund (through equity or loan financing) and implement agribusiness and labor-intensive enterprises which are based on the local production and participation of small farmers and the rural poor (hereinafter referred to as the "Project"). Of the Authorized Amount, Six Million Five Hundred Thousand Dollars ("Loan") will be loaned to CDB to assist in financing certain foreign exchange and local currency costs of goods and services required for the Project. \$225,000 of the Authorized Amount will be obligated when the Project Grant Agreement is signed, and \$6.5 million obligated when the Project Loan Agreement is signed.

I approve the total level of A.I.D. appropriated funding planned for this Project of not to exceed Six Million Nine Hundred Fifty Thousand United States Dollars (\$6,950,000), of which \$6,500,000 will be Loan funded and \$450,000 Grant funded, including the funding authorized above, during the period FY 1977 through FY 1981. I approve further increments during that period of Grant funding up to \$225,000,

subject to the availability of funds in accordance with A.I.D. allotment procedures.

I hereby authorize the initiation of negotiation and execution of a Project Grant Agreement and a Project Loan Agreement by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority, subject to the following essential terms and covenants and major conditions; together with such other terms and conditions as A.I.D. may deem appropriate:

A. Interest Rate and Terms of Repayment

(i) Portion for Equity Financing

CDB shall repay the portion of the Loan allocated for equity financing of sub-projects (such portion not to exceed \$1,300,000) to A.I.D. in United States Dollars within forty (40) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. CDB shall pay to A.I.D. in United States Dollars interest thereon from the date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

(ii) Portion for Loan Financing

CDB shall repay the portion of the Loan allocated for loan financing of sub-projects (such portion expected to be about \$5,200,000) to A.I.D. in United States Dollars within thirty (30) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. CDB shall pay to A.I.D. in United States Dollars interest thereon from the date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

B. Source and Origin of Loan Goods and Services

Except for Ocean Shipping, goods and services financed by A.I.D. under the Loan shall have their source and origin in countries included in A.I.D. Geographic Code 941 or in the country in which the sub-project is located, except as A.I.D. may otherwise agree in writing. Ocean shipping financed under the Loan shall be procured in any eligible source country except the country in which the subproject is located.

C. Source and Origin of Grant Goods and Services

Except for Ocean Shipping, goods and services financed by A.I.D. under the Grant shall have their source and origin in the United States or in the country in which the sub-project is located except as A.I.D. may otherwise agree in writing. Ocean shipping financed under the Grant shall be procured in the United States.

D. Conditions Precedent to Initial Loan Disbursement

Unless A.I.D. otherwise agrees, prior to any disbursement or to the issuance of any commitment documents under the Project Loan Agreement, CDB shall furnish to A.I.D., in form and substance satisfactory to A.I.D. a legal opinion of the General Counsel of CDB or other legal counsel acceptable to A.I.D. to the effect that the Project Loan Agreement has been duly authorized and/or ratified by the Board of Directors of CDB and executed on its behalf and that it constitutes a valid and legally binding obligation of the Caribbean Development Bank in accordance with all its terms.

E. Conditions Precedent to Loan Disbursement Other Than for Technical Assistance

Unless A.I.D. otherwise agrees, prior to any disbursement or to the issuance of any commitment documents under the Project Loan Agreement to finance other than technical assistance, CDB shall furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- (i) a statement of the criteria and methodology to be applied in the selection and appraisal of sub-projects for financing under the Loan;

- (ii) evidence of formal CDB Board of Directors approval of sub-loan lending terms and conditions agreed upon between CDB and A.I.D.; and
- (iii) a plan for institutional development of the Development Finance Corporation ("DFCs") of the participating countries, including where desirable, steps to promote restructuring or merger of DFCs in each country.

F. Special Covenants for Project Loan Agreement

CDB, except as A.I.D. shall otherwise agree, shall covenant that:

- (i) CDB will submit for A.I.D. approval any Loan financed sub-project that exceeds \$500,000 or which has an economic internal rate of return of less than 15% (A.I.D. will review this limitation for appropriateness at the first project evaluation).
- (ii) CDB will divest itself of A.I.D. financed equity investments as soon as practicable (to the maximum extent possible transferring such equity investments to the small farmers who supply raw materials to the respective enterprises); and
- (iii) The total of Loan financed sub-loans and equity investments in enterprises located in Barbados will not exceed \$1,000,000.

G. Conditions Precedent to Initial Grant Disbursement

Unless A.I.D. otherwise agrees, prior to any disbursement or to the issuance of any commitment documents under the Project Grant Agreement, CDB shall:

- (i) furnish to A.I.D., in form and substance satisfactory to A.I.D., a legal opinion for the Project Grant Agreement similar to that required under Section D for the Project Loan Agreement; and
- (ii) enter into and duly execute the Project Loan Agreement.

H. Special Covenants for Project Grant Agreement

CDB, except as A.I.D. shall otherwise agree, shall submit for A.I.D. approval any Grant financed sub-project which exceeds \$50,000.

I. Waivers

The following modification of A.I.D. regulations is hereby approved: authorization of A.I.D. Loan financing of shipping costs on A.I.D. Geographic Code 935 carriers when A.I.D. Geographic Code 941 carriers are not available as confirmed by SER/COM/TR on a case by case basis.

Edward W. Coyle

Assistant Administrator
Latin America Bureau

September 21, 1977

Date

Clearance:

GC/LA, JKessler <i>Jm</i>	Date
LA/CAR, JLockard (Draft)	Date <u>9/2/77</u>
LA/CAR, WWheeler (Draft)	Date <u>9/2/77</u>
LA/DR, CWeinberg <i>C.W.</i>	Date
LA/DR, PBittner <i>PB</i>	Date <u>9/2/77</u>
SER/FM/C, TBlacka <i>TB</i>	Date <u>9/13/77</u>
SER/COM/TR, RElliott (draft)	Date

GC/LA, TLGeiger:lb:9/7/77 *TLG*

5380010④
PD. AAB - 983

A.I.D. Loan Number 538-T-007
Project Number 538-0010

41P.

PROJECT
LOAN AGREEMENT
Between
THE CARIBBEAN DEVELOPMENT BANK
and the
UNITED STATES OF AMERICA
FOR
REGIONAL AGRIBUSINESS DEVELOPMENT

Dated: March 14, 1978.

A.I.D. Project No. 538-0010

PROJECT LOAN AGREEMENT

DATED March 14 , 1978

Between

The Caribbean Development Bank ("Borrower")

And

The United States of America, acting through the
Agency for International Development ("A.I.D.")

Article 1: 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 herein (the "Project"), 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 I, hereto, will consist of a regional agribusiness development program designed to increase the capacity of the Borrower and institutions in less developed member countries to develop, finance and implement agribusiness and labor-intensive enterprises which are based on the local production and participation of small

farmers and the rural poor in the Eligible Countries (as such term is defined in Section 6.1 hereof). Annex I amplifies the above definition and forms part of this Agreement.

Within the limits of the above definition, elements of the amplified description stated in Annex I may be changed by written agreement of the authorized representatives of the Parties named in Section 9.2 hereof without formal amendment of this Agreement.

Article 3: Financing

SECTION 3.1. The Loan. 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 to lend the Borrower under the terms of this Agreement not to exceed Six Million Five Hundred Thousand United States ("U.S.") Dollars (\$6,500,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal." The Loan may be used to finance foreign exchange costs, as such term is defined in Section 7.1 hereof, and local currency costs, as such term is defined in Section 7.2 hereof, 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 the Project will be not less than the equivalent of U.S. \$260,000, including costs borne on an "in-kind" basis.

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is March 14 , 19 83 , 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 hereof 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.

Article 4: 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 ten (10) years following the date of the first disbursement 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 hereof) of each respective disbursement, and will be computed on the basis of a 365-day year. Interest will be payable semiannually, and 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. Equity Financing Repayment. The Borrower will repay to A.I.D. the Principal allocated for equity financing of sub-projects under the Project (the amount of which shall not exceed \$1,300,000) within forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) approximately equal semi-annual installments of Principal and interest. The first installment of said 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 hereof. 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. Loan Financing Repayment. The Borrower will repay to A.I.D. the Principal allocated for loan financing of sub-projects under the Project within thirty (30) years from the date of the first disbursement of the Loan in forty-one (41) approximately equal semi-annual installments of Principal and interest. The first installment of said 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 4.4. 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, USA, and will be deemed made when received by the Office of Financial Management.

SECTION 4.5. 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 4.6. 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 Eligible Countries 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 hereof, 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 9.1 hereof, 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 negotiations 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 Borrower.

SECTION 4.7. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. hereunder will cease.

Article 5: Conditions Precedent to Disbursement

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

(a) an opinion of the General Counsel of the Borrower or of other counsel acceptable to A.I.D. to the effect that this Agreement has been duly authorized and/or ratified by the Board of Directors of the Borrower, and executed on its behalf, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all 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 hereof, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(c) a statement of the criteria and methodology to be applied in the selection and appraisal of sub-projects for financing under the Loan;

(d) evidence of formal approval by the Board of Directors of the Borrower of sub-loan lending terms and conditions agreed upon between the Borrower and A.I.D.;
and

(e) a plan for institutional development of the Development Finance Corporations "DFCs" of the Eligible Countries, including, where desirable, steps to promote restructuring or merger of DFCs in each Eligible Country.

SECTION 5.2. Conditions Precedent to Disbursement to Finance Procurement From Sources Within the United Kingdom or Canada. Prior to any disbursement or the issuance of any commitment document under the loan to finance procurement of goods or services from sources within either the United Kingdom or Canada, Borrower shall furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that such country has agreed to permit all funds provided to Borrower subsequent to March 14 , 19 78, to be used for procurement from sources within the United States.

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

SECTION 5.4. Terminal Dates for Conditions Precedent.

If all of the conditions specified in Section 5.1 hereof have not been met within 120 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 6: Special Covenants

SECTION 6.1. Eligible Countries. Borrower covenants and agrees that, unless otherwise agreed in writing by A.I.D., funds made available under the Project shall be utilized for financing sub-loans, and equity financing of sub-projects only in the following countries ("Eligible Countries"): Antigua, Barbados, Belize, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, and St. Vincent.

SECTION 6.2 Sub-Loan Information. The Borrower covenants and agrees to provide A.I.D. with copies of such summary loan documents as the Board of Directors of the Borrower receives during the approval process for sub-loans financed with funds made available by the Loan, or such other information relating to such sub-loans as A.I.D. may deem advisable.

SECTION 6.3. Project Evaluation. The Parties agree to establish an evaluation program as an integral part of the Project. Each year A.I.D. and the Borrower will evaluate the Project. Each year A.I.D. and the Borrower will evaluate the impact of the Project on the small farmers and rural poor in the Eligible Countries. The first such evaluation will be performed six months after the first disbursement of Loan funds. All such evaluations will include examination of the appropriateness and effectiveness

of the sub-project selection criteria and procedures relative to Project objectives. The first evaluation will be focused on these aspects of the Project to permit early identification and resolution of any implementation problems. Details of the evaluation program will be set out in an Implementation Letter.

SECTION 6.4. A.I.D. Approval. The Borrower covenants and agrees to submit for A.I.D. approval any Loan-financed sub-project that exceeds \$500,000 or which has an economic internal rate of return of less than 15%, unless A.I.D. otherwise agrees in writing. The \$500,000 limit will be reviewed for appropriateness at the first project evaluation.

SECTION 6.5. Equity Investments. The Borrower covenants and agrees to divest itself of A.I.D.-financed equity investment as soon as practicable (to the maximum extent possible transferring such equity investment to the small farmers who supply raw materials to the respective enterprises).

SECTION 6.6. Barbados. The Borrower covenants and agrees not to use more than \$1,000,000 of the Loan to finance sub-loans or equity investments in enterprises located in Barbados, unless A.I.D. otherwise agrees in writing.

Article 7: Procurement Source

SECTION 7.1. Foreign Exchange Costs. Disbursements pursuant to Section 8.1 hereof will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the United Kingdom, Canada 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 or in the country in which the sub-project is located ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex, Section C.1(b), with respect to marine insurance. Ocean shipping financed under the Loan shall be procured in the United Kingdom, Canada or any Code 941 country except the country in which the sub-project is located; provided, however, that if SER/COM/TR shall confirm that A.I.D. Geographic Code 941 carriers are not available in a specific instance, ocean shipping financed by the Loan may be procured in countries included in A.I.D. Geographic Code 935.

SECTION 7.2. Local Currency Costs. Disbursements pursuant to Section 8.2 hereof 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 the Eligible Countries ("Local Currency Costs").

Article 8: 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 Borrower's behalf for the Project; or,

(2) by requesting A.I.D. to issue Letter 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 for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless 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 disbursements 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. requesting Borrower to make available the local currency for such costs, and thereafter

reimbursing an amount of U. S. dollars equal to the amount of local currency made available by the Borrower.

SECTION 8.3. Other Forms of Disbursement.

Disbursements of the Loan 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 hereof, if funds provided under the Loan are introduced into the country in which a sub-project is located 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 such country at the highest rate of exchange which, at the time the conversion is made, is not unlawful in such country.

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; (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) hereof; or (c) if local currency is obtained in accordance with Section 8.2 (b) (2) hereof, on the date on which A.I.D. reimburses Borrower.

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 addresses:

To the Borrower:

Mail Address: Caribbean Development Bank
P. O. Box 408
Wildey, St. Michael
Barbados, West Indies
Attn: President

Alternate address
for cables:

"Caribank"
Telex: WB 287

To A.I.D.:

Mail Address: A.I.D. Affairs Officer
Regional Development Office/
Caribbean
USAID/Barbados
Bridgetown, Barbados

Alternate address
for cables:

A.I.D.-LA/DR
Washington, D. C.

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. The Borrower, in addition, will provide the U.S.A.I.D. Regional Development Office/Caribbean in Barbados with a copy of each communication sent to A.I.D.

SECTION 9.2. Representatives: For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the President and A.I.D. will be represented by the individual holding or acting in the office of the A.I.D. Affairs Officer, 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 I. The names of the representatives of 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.

IN WITNESS WHEREOF, the Borrower 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.

CARIBBEAN DEVELOPMENT BANK

By: *[Signature]*

Title: President

UNITED STATES OF AMERICA

By: *[Signature]*

Title: Ambassador of the United States

Caribbean Regional Agribusiness

No. 538-T-007

ANNEX I

A. Goal, Purpose and Strategy

The goal of the project is to increase the incomes and well-being of the small farmer (i.e., those whose agricultural exploitations are under twenty-five acres in size) and rural poor by improving and/or stabilizing markets for small farmer crops, reducing the costs of small farmer inputs, and increasing employment opportunities for rural workers. The purpose of the project is to increase the capacity of the CDB and eligible country institutions to promote, develop, finance and implement agribusiness and labor-intensive enterprises which are based on the local production and participation of small farmers and the rural poor. The project is designed to address the major institutional constraints to investment in agribusiness and labor-intensive enterprises. That is, lack of credit and capital, lack of promotion efforts, lack of technical assistance delivery systems and technological constraints.

B. The Program

A.I.D. loan funds of \$6,500,000 will establish an "Agribusiness Development Fund" within the CDB's Special Funds operations to be implemented over a five-year period. The Fund will be used to finance loan and equity investments in agribusiness and labor-intensive enterprises selected on the basis of their potential beneficial impact on small farmers and rural poor of the Eligible Countries. (Total investments in Barbados are limited to \$1,000,000 unless A.I.D. otherwise agrees in writing).

Three types of enterprises will be eligible for financing under the program:

- (1) Those that expand and/or stabilize the market for small farmer production;
- (2) Those that reduce the cost of small farmer production;
- (3) Those that increase employment opportunities for rural workers.

The Agribusiness Development Fund will be complemented by a \$450,000 grant to be used by the CDB in commissioning adaptive research on agribusiness technologies appropriate to the Region's resource base and markets. These research projects will meet the following criteria:

a. The technical assistance to be developed should have direct utility in the agribusiness development program.

b. The technology under investigation will be of utility to more than a single facility.

c. All basic research has been completed; effective application to the Region will require only adaptive research.

C. Administration of the Program

The CDB will have primary responsibility for overall administration and coordination of program activities, including those of other Regional and national institutions involved in the implementation of subprojects, in accordance with guidelines and criteria agreed to in advance by A.I.D. Thus, the CDB will initiate action and in most cases be directly responsible for the following functions:

(1) Promotion of the Agribusiness Development Program involving to the maximum extent possible national and local institutions through the use of seminars and training of Ministry of Agriculture and DFCs staff.

(2) Identification of eligible subprojects.

- (3) Pre-investment studies.
- (4) Project appraisals.
- (5) Approval of loan applications.
- (6) Coordination of technical assistance to enterprises.
- (7) Sub-project followup.

The Caribbean Investment Corporation (CIC) and national Development Finance Corporations (DFCs) will act as financial intermediaries for smaller projects (generally under \$100,000) and, commensurate with their individual capabilities, will assist the CDB in implementing the program. The CDB, however, will retain primary responsibility for following-up on the activities of these intermediaries.

Project Development

Project development encompasses all the steps necessary to establish the technical feasibility, determine implementation progress indicators and criteria, and establish preliminary economic and financial feasibilities of an identified project so that it is ready for final CDB appraisal.

Private sector projects involving entrepreneurs with net worth of \$75,000 or more (defined for purposes of this

program as hard-term projects) will bear the costs of project preparation and pre-investment studies directly or, where the CDB obtains and initially finances the services of outside consultants, the cost may be added to the sub-loan and recovered from the sub-borrower.

Studies related to public sector projects, projects involving cooperatives, and projects involving entrepreneurs with less than \$75,000 net worth (soft-term projects) will be eligible for financing under the Fund. The CDB will charge a one-time 3 percent administration fee on all soft-term loans.

Appraisals

All project appraisals will be either conducted by the CDB or, if conducted by a DFC or the CIC, reviewed by the CDB.

In accordance with its existing practices, the CDB will analyze the technical, economic, financial, and social feasibility of each project. For A.I.D.-financed projects, the CDB will include in its appraisal a determination that the project will have no significant negative effects on the environment.

In addition to the CDB's normally required feasibility analyses the CDB will make a negative environmental determination. It will also perform an analysis during project

development of the target group impact of each sub-project to ensure the sub-project will meet one or more of the following eligibility criteria:

- (1) Expand and/or stabilize the market for small farmer products;
- (2) Reduce the cost of small farmer production;
- (3) Increase the demand for labor. (To qualify solely on the basis of its impact on employment, a sub-project must be labor-intensive with a ratio of total fixed investment per job of not more than \$7,500.)

Where project benefits are expected to flow to large as well as small farmers, it must be demonstrated that at least 50 percent of such benefits accrue to small farmers. Furthermore, the CBB will seek to incorporate, to the extent possible and where appropriate, the following elements which help to strengthen the forward and backward linkages of the enterprise to the target group; and where these elements are considered essential to ensuring the desired target group benefits, the CDB and DFCs shall require sub-borrowers to implement these elements in the sub-loan agreements:

- contract buying
- employee profit sharing
- cooperative ownership
- small farmer equity participation
- enterprise services to small farm suppliers -- e.g.,

credit, in-kind, technical assistance, etc.

During project development, the CDB will identify specific technical assistance needs and will maintain a register of technical assistance sources for this purpose. Hard-term projects will assume the costs of such technical assistance directly. For the smaller, soft-term projects, the CDB's agriculture and small industry staffs may provide all or part of the assistance. Where this is not possible, the CDB will obtain outside consultants, who will be financed by the Fund. Soft-term loans will be charged a 2 percent annual surcharge to offset technical assistance costs of the program.

At the end of the project it is expected that all loan funds will have been placed in agribusiness and labor-intensive enterprise sub-projects and that the CDB and national Development Finance Corporations will have a demonstrated capacity in operating the Fund. All subprojects will benefit the small farmer and rural poor in accordance with fund criteria. An effective system for promoting, identifying, financing, and implementing eligible subprojects will be established and functioning to ensure the continuation of Fund activities.

D. Financial Arrangements

(1) Sub-loan financing: Three types of sub-lending are contemplated under the Fund - loans to private sector (including cooperative) enterprises of up to \$100,000, loans to private sector (including cooperative) enterprises in excess of \$100,000, and loans to public sector enterprises.

- Loans to private sector enterprises up to \$100,000

Individual loans to the private sector of up to \$100,000 will be handled by financial intermediaries in each of the participating countries. The CDB will provide a line of credit to each of the participating national Development Finance Corporations based on the estimated requirements in each country over the life of the project. The line of credit may be adjusted between DFCs as appropriate based on actual experience. The charges to the DFCs by the CDB will include a 4 percent interest rate in accordance with current bank lending policies and, for purposes of this program, the annual 2 percent technical assistance surcharge, and one-time 3 percent administration fee. The DFC will in turn charge its subborrowers its normal 6 - 8 percent interest charge and, in addition, will pass on the 2 percent surcharge and 3 percent administration fee

charged by the CDB. The net interest spread will thus be 2-4 percent to cover the DFC's administrative costs related to the agribusiness program.

Loans to private sector enterprises over \$100,000

Individual loans in excess of \$100,000 to private sector borrowers will be made directly by the CDB from the Fund at a rate of 9 and one-half percent in keeping with the CDB's existing interest rate policy for larger private sector agribusiness lending. Any project development or technical assistance costs of the project will be charged directly to this class of subborrowers.

Loans to public sector enterprises

All loans for government-owned agribusiness enterprises will be made by the CDB from the Fund at a rate of 9 and one-half percent in keeping with its existing interest rate policy for larger enterprises. In those cases where loans are made by the CDB to governments for relending to a government-owned enterprise, the loans will be made to the government at no less than 4 percent and relent at 9 and one-half percent to the enterprise.

In all cases, repayment periods of up to fifteen (15) years including a grace period of up to five (5) years, will be provided as appropriate.

(b) Equity financing:

In addition to the selection criteria applied to loan financing, the use of equity financing will be conditioned upon a determination that either:

(1) Equity financing is necessary to ensure the financial viability of an otherwise viable, eligible enterprise -- that is, where an entrepreneur wishes to establish or expand a potentially viable enterprise but is unable to meet current CDB lending criteria, i.e.,

- (a) borrower contribution of at least 40 percent and
- (b) adequate security coverage of CDB loans;

(2) Equity participation is to be held by the Bank, with the objective of subsequently transferring such equity to small farmer raw material suppliers of the enterprise or cooperatives or other organizations consisting of such farmers. In these cases equity financing would be used as a tool for promoting vertical integration of production and processing within the framework of, cooperatives or growers associations. Where this is not possible the Bank shall seek to transfer such equity to other nationals of borrowing member countries of the Bank.

All CDB participation would be on a preferential basis with respect to assets and income. Preferred dividends of 4 percent would be issued. The CDB may, at its option, finance equity investment of \$100,000 or less indirectly through loans to the Caribbean Investment Corporation, which would in turn hold the equity position in the enterprise.

E. Financial Plan

Source* and Application of Funding
(U.S. \$000s)

<u>Project Inputs</u>	<u>AID Loan</u>	<u>AID Grant</u>	<u>CDB</u>	<u>TOTAL</u> *
1. Loan financing of Agribusines and labor- intensive enterprise.	\$5,200	-	-	\$5,200
2. Equity financing of agribusines and labor-intensive enterprise	1,300	-	-	1,300
3. Technical Assistance:				
- technology develop- ment	-	\$450	-	450
- enterprise technical assistance	-	-	\$125	125
4. Administrative costs	-	-	135	135
	<u>\$6,500</u>	<u>\$450</u>	<u>\$260</u>	<u>\$7,210</u>

* Does not include 10 percent counterpart contributions of national governments required for CDB sub-lending.

Project Loan Standard

Provisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project 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:

(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 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 objectives sought in carrying out the Project.

(b) 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.

(a) 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.

(b) To the extent that (1) 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 (2) 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 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 Loan.

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

SECTION B.5.(b)

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

(c) 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:

(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 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;

(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 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 country of the Borrower.

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

(b) Premiums for 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 Loan will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

SECTION C.2. Eligibility 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:

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

(1) 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;

(2) 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 (a) (2) 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 Loan will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

SECTION C.3.

(c) 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

(d) 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.

(a) Goods which are to be transported to the territory of the Borrower may not be financed under the Loan if transported either:

(1) 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

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

(3) 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 Loan, if such goods or persons are carried:

SECTION C.6.

(1) on an ocean vessel 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

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

(3) 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,

(1) 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

(2) 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 (1) and (2) 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 as a Foreign Exchange Cost under this Agreement provided,

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

SECTION C.7.

(2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Borrower (or government of any Eligible Country) 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 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; 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:

(a) to pay when due any interest or installment of Principal required under this Agreement, or

SECTION D.2.

(b) to comply with any other provision of this Agreement, or

(c) 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:

(1) such unrepaid Principal and accrued interest hereunder will be due and payable immediately, and

(2) 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 Loan 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:

(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

SECTION D.3.

(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 Borrower's territory are in a deliverable state and have not been offloaded in ports of entry of Borrower's territory. 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.

(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. 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.

(b)

(1) Any refund under the preceding subsection, or

(2) 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,

SECTION D.6(b)(2)

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.

A.I.D. Project Number 538-0010

3p.

PROJECT
GRANT AGREEMENT
BETWEEN
THE CARIBBEAN DEVELOPMENT BANK
AND THE
UNITED STATES OF AMERICA
FOR
REGIONAL AGRIBUSINESS DEVELOPMENT

Dated: December 7, 1978

Appropriation: 72-1191021

Allotment: 943-54-538-00-69-91

A.I.D. Project No. 538-0010

Project Grant Agreement

Dated: December 7, 1978

Between

The Caribbean Development Bank ("Grantee")

And

The United States of America, acting through the Agency for
International Development ("A.I.D.")

Article 1: The Agreement

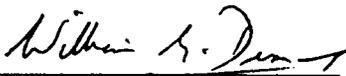
The purpose of this Agreement is to provide the Grantee an additional Grant of A.I.D. funds to continue implementation of this project as originally agreed between the two parties on September 30, 1977.

The additional funds provided herein are in accordance with the original Agreement, 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 the purpose, and to the mutual agreement of the parties, at the time of a subsequent increment, to proceed."

In accordance with Article 3: Financing, and Section 3.1: The Grant of the original Grant Agreement, to assist the Grantee 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 Grantee under the terms of the original Agreement an increment not to exceed one hundred thousand United States ("U.S.") dollars (\$100,000) ("Grant"). The Grant may be used to finance foreign exchange costs, as defined in Section 6.1 and local currency cost, as defined in Section 6.2 of goods and services required for the project under the original Grant Project Agreement.

All other conditions of the original Grant Project Agreement dated September 30, 1977 remain unchanged.

Caribbean Development Bank

By: 
WILLIAM G. DEMAS

Title: PRESIDENT

United States of America

By: 
WILLIAM B. WHEELER

Title: AID REPRESENTATIVE