

CONFORMED COPY

LOAN NUMBER 7357-GU

Loan Agreement

(Maternal and Infant Health and Nutrition Project)

between

REPUBLIC OF GUATEMALA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 18, 2007

LOAN AGREEMENT

Agreement dated May 18, 2007, between REPUBLIC OF GUATEMALA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I—GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II—LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of forty nine million Dollars (\$49,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent ($\frac{3}{4}$ of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.
- 2.06. The Payment Dates are May 15 and November 15 in each year.

- 2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.
- 2.09. Without limitation upon the provisions of paragraph (a) of Section 2.08 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal forty nine million Dollars (\$49,000,0000) shall be converted from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of the General Conditions and of the Conversion Guidelines.

ARTICLE III—PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through MSPAS in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV—EFFECTIVENESS

4.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date (90) days after the date of this Agreement, but in no case later than the eighteen months after the bank's approval of the Loan which expire on July 19, 2007.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Borrower's Representative is the Minister of Public Finance

5.02. The Borrower's Address is:

Ministerio de Finanzas Públicas
8a Avenida y 21 Calle
Centro Cívico, Zona 1
Guatemala, Guatemala, C.A.

Telephone:

(502) 22485002
(502) 22485003
(502) 22485080

Fax:

(502) 22485005
(502) 22485084

5.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423(MCI) or
64145(MCI)

Facsimile:

1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF GUATEMALA

By /s/ Hugo Beteta Méndez-Ruíz
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jane Armitage
Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to assist the Borrower in: (a) improving maternal and infant health in the Project's 40 areas of intervention; and (b) reducing chronic malnutrition among children younger than 2 years of age in the rural areas of the 70 municipalities targeted by the Project.

The Project consists of the following parts:

Part 1: Strengthening of the Maternal and Infant Health Network

Supporting the development of a maternal and infant health referral and response network through:

- A. Promoting the demand for maternal and infant health care services using a community-based development approach to enhance the inclusion of the alienated indigenous and rural population in health service provision, and ensure resulting critical behavioral changes culminating in demand for health services.
- B. Providing support to address the health problems covered by the PEC by strengthening capacity of the Borrower's secondary health level institutions, including: (a) carrying out the upgrading of 40 health centers to CAIMIs; (b) promoting the demand for reproductive health services by disseminating messages on safe motherhood, including the timely referral of obstetric emergencies and promoting the participation of traditional birth attendants as integrated human resources in the CAIMIs; (c) training a network team of skilled personnel and professional obstetricians; (d) determining the maternal and infant health baseline for each CAIMI; and (e) carrying out laboratory services, as needed.
- C. Enhancing the operationalization of the maternal and infant health referral and response network around the PEC, the CAIMIs and the Borrower's health facilities, medical laboratories, and other relevant facilities.

Part 2: Implementation of the AINM-C Program and "Creciendo Bien" Nutrition Strategies

Addressing the problem of child malnutrition in 70 selected municipalities of the Borrower's territory by expanding coverage of community-based growth promotion and basic health services and, additionally, by expanding community-based, capacity-strengthening of mothers and families in the most vulnerable and indigenous communities through:

- A. Strengthening MSPAS' basic AINM-C Program package of services consisting of preventive activities, basic curative activities, and appropriate individual counseling to mothers by community volunteers and *Madres Monitoras* and integrating into the AINM-C Program package of services activities previously provided under the *Creciendo Bien* strategy.

- B. Expanding the *Creciendo Bien* strategy in about the 30 percent most vulnerable communities of the 70 municipalities covered by PEC, with a particular emphasis on the indigenous communities to carry out activities of self-esteem and training designed to develop capacity of women, families and communities to generate demand for utilization of health and nutrition services and facilities.
- C. Strengthening MSPAS' capacity for proper monitoring of the provision of basic health and nutrition services and for supervising the contracting in respect thereof.

Part 3: Communication, Monitoring, Evaluation and Continuous Auditing Systems

- A. Designing jointly between MSPAS, SESAN and SOSEP, and thereafter, implementing a Project communication strategy using adequate means and communication channels taking into account cultural, ethnic, and gender particularities in targeted areas.
- B. Developing, in coordination with the Borrower's own policy in the matter, a result-based monitoring and evaluation system to assess: (a) the effectiveness of the delivery of the Project and the Borrower's programs supported thereunder; (b) the effectiveness of said programs' implementation evaluation processes; and (c) the Project and programs' midterm and final outcomes and impacts.
- C. Completing and coordinating an assessment of the impact of the Project in reducing chronic malnutrition in the targeted areas, including the definition of relevant evaluation methodologies in relation thereto.

Part 4: Institutional Strengthening

Providing support for the building of institutional capacity of MSPAS to implement and administer basic health and nutrition services, including support to SESAN to improve its institutional capacity to administer the monitoring and evaluation activities of the nutrition interventions and to implement a comprehensive communication strategy.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Implementation documents

1. (a) The Borrower shall adopt an operational manual, satisfactory in form and substance to the Bank, consisting of different modules setting forth rules, methods, guidelines, standard documents and procedures for the carrying out of the Project, including the following:
 - (i) the detailed description of project implementation, including: (A) all Project activities, their sequencing and the prospective timetable and benchmarks in relation thereto; and (B) the institutional arrangements in respect thereof, including the allocation of duties by MSPAS with regard to SESAN and SOSEP, the terms and conditions for their participation and all related procedures;
 - (ii) the Project administrative, accounting, auditing, reporting, financial, disbursement and procurement procedures including all pertinent standard documents and model contracts in relation thereto, including standard bidding documents in respect of each procurement method set forth in the Procurement Plan;
 - (iii) the Environmental Management Framework, including the CAIMIs waste management and disposal plan and the indigenous peoples framework, disclosed to the general public on November 28, 2005, therein setting forth the guidelines and the framework for mitigating potential harmful effects of Project implementation;
 - (iv) the plan for the training programs and capacity building activities under the Project;
 - (v) the plan for the monitoring and supervision of the Project, including environmental aspects in relation thereto; and
 - (vi) the performance indicators for the Project.
- (b) The Borrower shall carry out the Project in accordance with the OM.
2. In the event that any provision of the OM shall conflict with any one under this Agreement, the terms of this Agreement shall prevail.
3. The Borrower may amend the OM from time to time only with the Bank's prior written consent.

B. Institutional Arrangements

The Borrower shall:

- (a) not later than two months after the Effective Date, enter into implementation agreements with SESAN and SOSEP, under the Project, pursuant to terms and conditions specified in the OM to ensure their respective participation in the Project; and
- (b) exercise its rights and carry out its obligations under the said implementation agreements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any implementation agreement or any provision thereof.

C. Implementation arrangements

The Borrower shall, not later than 3 months before the end of the second Project Year, make adequate arrangements to progressively assume exclusive financial responsibility regarding the staff of the CAIMIs so as to enable the uninterrupted operation and management of the CAIMIs.

Section II. Project Monitoring, Reporting, Evaluation**A. Project Reports**

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank included in the OM. Each Project Report shall cover the period of one calendar semester and shall be furnished to the Bank not later than two months after the end of the period covered by such report.
2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. The Borrower shall prepare and furnish to the Bank not later than forty five days after the end of each calendar semester, interim un-audited financial reports for the Project covering the semester in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial

Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding, subject to using Standard Bidding Documents agreed with the Bank
(b) Shopping, subject to using Standard Bidding Documents agreed with the Bank
(c) Direct contracting, subject to the Bank's prior consent

C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Least cost selection
(b) Selection based on consultants’ qualifications
(c) Selection under a fixed budget
(d) Single source selection, subject to the Bank’s prior consent
(e) Services rendered by individual consultants

D. **Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. **General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower: (a) to finance the Front-end Fee in accordance with Section 2.07 (b) of the General Conditions; and (b) to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed
(1) Goods and associated services	3,000,000	100%
(2) Works and associated services	9,650,000	100%
(3) Consultants' services, training and audits	5,200,000	100%
(4) Health services		
(a) under Part 1 of the Project	7,000,000	100%
(b) under Part 2 of the Project	21,490,000	100%
(5) Operating costs	1,290,000	100%
(6) Front-end Fee	122,500	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(7) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount payable Pursuant to Section 2.08 of this Agreement in Accordance with Section 4.04 (c) of the General Conditions
(8) Unallocated	1,247,500	
TOTAL	49,000,000	

3. The Borrower may open a designated account (Special Account) in US Dollars into which the Bank may, at the Borrower's request, deposit amounts withdrawn from the Loan Account as advances for purposes of the Project. The Additional Instructions concerning the operation of the designated account will be set forth in the disbursement letter.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made in respect of payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2011.

SCHEDULE 3**Amortization Schedule**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 15 and November 15:	
Beginning May 15, 2011 through May 15, 2022	4.17 %
On November 15, 2022	4.09 %

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX**Section I. Definitions**

1. “Additional Instructions” as set forth in Section IV.A.3 of Schedule 2 to this Agreement means the disbursement letter of even date herewith entered into between the Bank and the Borrower for the purposes of this Project.
2. “AINM-C Program” means *Atención Integral a la Niñez y Mujer en Comunidad*, the Borrower’s community integrated preventive health and nutrition program for women and children less than 2 years old, to be carried out as part of the PEC.
3. “CAIMI” means *Centro de Atención Integral Materno Infantil*, a maternal and infant health care center in the Borrower’s territory.
4. “Category” means a category set forth in the table of Section IV.A.2 of Schedule 2 to this Agreement.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
6. “*Creciendo Bien*” means the Borrower’s strategy for targeted social interventions, included in the health and nutrition sector, through capacity building of beneficiaries and stakeholders at individual, household and community levels.
7. “Environmental Management Framework” means the Borrower’s framework for the management of social and environmental aspects of the Project, including the CAIMIs waste management and disposal plan, disclosed to the public on November 28, 2005, as may be amended from time to time with the prior approval of the Bank.
8. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
9. “Health services” means in respect of Category 4 in the table of Section IV.A.2 of Schedule 2 to this Agreement, the services to be provided by social workers or medical personnel.
10. “*Madre Monitora*” means a volunteer mother who assists in the implementation of Part 2.A of Schedule 1 of the Project.
11. “*Ministerio de Finanzas Públicas*” means the Borrower’s Ministry of Public Finance.
12. “*Ministerio de Salud Pública y Asistencia Social*” and “MSPAS” mean the Borrower’s Ministry of Public Health and Social Welfare, responsible for the technical implementation of the Project as set forth in Schedule 2 to this Agreement.
13. “OM” means the manual referred to in Section I.A.1 of Schedule 2 to this Agreement.

14. “Operating costs” means in respect of Category 5 in the table of Section IV.A.2 of Schedule 2 to this Agreement, the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs and salaries of locally contracted employees.
15. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
16. “Procurement Plan” means the Borrower’s signed procurement plan for the Project, dated December 07, 2005 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
17. “*Programa Extensión de Cobertura*” and “PEC” mean the Borrower’s program for the extension of coverage through provision of a basic package of health services inside its territory.
18. “Project Year” and “PY” mean each twelve month period during Project implementation, starting from the date after the Effective Date and ending twelve months thereafter and each subsequent twelve month period after it.
19. “*Secretaría de Obras Sociales de la Esposa del Presidente*” and “SOSEP” mean the Borrower’s Secretariat of Social Works of the President’s Wife.
20. “*Secretaría de Seguridad Alimentaria y Nutricional*” and “SESAN” mean the Borrower’s Secretariat of Food and Nutritional Security.
21. “Training” means in respect of Category 3 in the table of Section IV.A.2 of Schedule 2 to this Agreement: (i) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under said Section IV.A.2 of Schedule 2 to this Agreement.