

AGREEMENT BETWEEN  
THE GOVERNMENT OF THE UNITED STATES OF AMERICA  
AND  
THE GOVERNMENT OF THE REPUBLIC OF PARAGUAY  
REGARDING THE REDUCTION OF CERTAIN DEBTS OWED TO THE GOVERNMENT  
OF THE UNITED STATES AND ITS AGENCIES

The Government of the United States of America (the "USG") and the Government of the Republic of Paraguay (the "GOP"),

*Seeking* to facilitate the conservation, protection, restoration, and sustainable use and management of tropical forests in Paraguay, which provide a wide range of benefits to the people of Paraguay,

*Noting* that tropical deforestation and forest degradation continue to be serious problems in many regions of the world,

*Recognizing* that the alleviation of external debt in the context of broader economic reforms can reduce economic pressures on countries and result in increased protection for tropical forests,

*Also recognizing* that economic benefits to local communities of sustainable uses of tropical forests are critical to their protection and sustainable management,

*Considering* Paraguay's positive record in implementing market-based economic reforms including sustained efforts to liberalize its investment regime, and

*In furtherance of* the goals of the U.S. Tropical Forest Conservation Act of 1998, as amended, and the Foreign Operations, Export Financing, and Related Programs Appropriations Acts for U.S. fiscal years 2004 and 2005,

Have agreed as follows:

Article 1  
DEFINITIONS

1. "526 L015 July 2006 Payment" means, if the Closing Date is after July 17, 2006, the amount due on July 17, 2006 from, and paid by or on behalf of, the GOP to USAID with respect to Loan 526 L015 that shall be transferred by USAID according to the provisions of Article III, paragraph 2 or 3 of this Agreement.
2. "526 T028 July 2006 Payment" means, if the Closing Date is after July 24, 2006, the amount due on July 24, 2006 from, and paid by or on behalf of, the GOP to USAID with respect to

Loan 526 T028 that shall be transferred by USAID according to the provisions of Article III, paragraph 2 or 3 of this Agreement.

3. "526 L021 August 2006 Payment" means, if the Closing Date is after August 20, 2006, the amount due on August 20, 2006 from, and paid by or on behalf of, the GOP to USAID with respect to Loan 526 L021 that shall be transferred by USAID according to the provisions of Article III, paragraph 2 or 3 of this Agreement.
4. "526 L018 August 2006 Payment" means, if the Closing Date is after August 21, 2006, the amount due on August 21, 2006 from, and paid by or on behalf of, the GOP to USAID with respect to Loan 526 L018 that shall be transferred by USAID according to the provisions of Article III, paragraph 2 or 3 of this Agreement.
5. "Agreement" means this debt reduction agreement, as it may be amended from time to time.
6. "Board" has the meaning ascribed to it in Article III of the Tropical Forest Agreement.
7. "Business Day" means any day on which the Central Bank of Paraguay is open for business, or, with respect to the provisions of Article II, paragraphs 1 and 2, and, if applicable, with respect to Articles III, paragraphs 2 and 3, Article V, paragraph 4(b)(iii), and Article VII, paragraph 2, of this Agreement, any day on which both the Central Bank of Paraguay and the Federal Reserve Bank of New York are open for business.
8. "Closing" has the meaning set forth in Article II of this Agreement.
9. "Closing Date" has the meaning set forth in Article II of this Agreement.
10. "Effective Date" has the meaning set forth in Article VII, paragraph 1 of this Agreement.
11. "Exchange Rate" means the daily reference exchange rate for Local Currency expressed in U.S. Dollars as certified by the Central Bank of the Republic of Paraguay for the Business Day on which the Payment is made.
12. "Executive Director" has the meaning ascribed to it in the Tropical Forest Agreement.
13. "Fiscal Agent" has the meaning ascribed to it in Article II, paragraph 4, of the Tropical Forest Agreement.
14. "Fund" means the new Tropical Forest Conservation Fund established in accordance with the laws of Paraguay pursuant to the Tropical Forest Agreement.

15. "GOP" means the Government of the Republic of Paraguay, its agencies or instrumentalities, acting primarily through the Ministry of Finance.
16. "Local Currency" means the lawful currency of the Republic of Paraguay.
17. "New TFCA Obligations" means the GOP's new obligations concluded pursuant to this Agreement, which shall replace the Old Obligations and obligate the GOP to make the Payments to the Fund in accordance with the Tropical Forest Agreement and the terms and conditions set forth herein.
18. "Notification Date" has the meaning set forth in Article V, paragraph 4 of this Agreement.
19. "Old Obligations" means Loans 526 L015, 526 L016, 526 L018, 526 L012A, 526 L021, 526 L024, 526 L023, 526 W026, 526 T027, and 526 T028, under the agreements entitled "Loan and Grant Agreement between the Government of Paraguay and the Government of the United States of America Acting through the Agency for International Development," dated January 6, 1967, April 10, 1967, January 29, 1968, October 4, 1968, October 1, 1970, September 3, 1971, October 9, 1972, May 23, 1974, June 30, 1975, and November 9, 1976, respectively, that obligate the GOP to repay principal and interest on debt whose outstanding principal sums at July 6, 2006 amount to U.S.\$ 6,549,673.47 and whose outstanding scheduled interest sums at July 6, 2006 amount to U.S.\$ 840,454.46.
20. "Overdue Interest" means interest that accrues at a rate of 2.5 percent per annum with respect to Obligations 1, 2, 3 and 4 of Schedule A, and at a rate of 3 percent per annum with respect to Obligations 5, 6, 7, 8, 9 and 10 of Schedule A, on any overdue and unpaid Payment. Overdue Interest shall be paid in Local Currency, unless Article V, paragraph 4(b)(iii) of this Agreement applies.
21. "Party" means either the USG or the GOP, and "Parties" means both the USG and the GOP.
22. "Payment(s)" means the payment(s) to be made by the GOP under the New TFCA Obligations as shown in Schedule A. A Payment shall be made in Local Currency calculated by the Government of Paraguay using the Exchange Rate unless the Agreement specifically requires a U.S. Dollar Payment.
23. "Payment Due Date" has the meaning set forth in Article V of this Agreement.
24. "Schedule A" means the attached repayment schedule for the New TFCA Obligations. Schedule A lists the dates and amounts due for Payments under the New TFCA

Obligations. Payments under the New TFCA Obligations are listed on Schedule A as U.S. Dollar Interest Payments, but, as provided in this Agreement, are to be paid in Local Currency using the Exchange Rate unless Article III or Article IV, paragraph 4(b) of this Agreement apply.

25. "Signature Date" has the meaning set forth in Article VII of this Agreement.
26. "Termination" has the meaning set forth in Article VII of this Agreement.
27. "Tropical Forest Agreement" means the "Agreement Between the Government of the United States of America and the Government of Paraguay Concerning the Establishment of a Tropical Forest Conservation Fund and a Tropical Forest Conservation Board", dated as of the same date as this Agreement, to provide for the establishment and operation of a fund and the operation of an administering board in order to promote activities designed to conserve, maintain, restore or promote sustainable use the tropical forests of Paraguay.
28. "USAID" means the United States Agency for International Development.
29. "USG" means the Government of the United States of America, acting primarily through the U.S. Department of the Treasury.
30. "U.S. Treasury Escrow Account" has the meanings set forth in Article III, and Article V, paragraph 4(b)(iii) of this Agreement.

## Article II CLOSING AND REDUCTION OF OUTSTANDING DEBT

1. Pursuant to the terms and subject to the conditions hereof, at the Closing, the USG and the GOP shall cancel the Old Obligations, and in its place substitute the New TFCA Obligations.
2. The consummation of the transactions set forth in paragraph 1 of this Article (the "Closing") shall occur on the Business Day (the "Closing Date") which is either: (a) September 7, 2006; or (b) such other Business Day on or before September 29, 2006, as may be agreed by the Parties in writing on or before the date set forth in subsection (a) of this paragraph.
3. The GOP agrees to make Payments to the Fund in Local Currency as calculated with the Exchange Rate in accordance with the New TFCA Obligations as specified in Schedule A and in accordance with the terms and conditions set forth herein and in the Tropical Forest Agreement. If the respective Payment Due Date for the payment to the Fund is

not a Business Day, then the Payment Due Date for that payment shall be the next succeeding day which is a Business Day.

4. The GOP agrees not to assign the New TFCA Obligations to any third party.

### Article III

#### PAYMENTS ON THE NEW TFCA OBLIGATIONS TO THE U.S. TREASURY ESCROW ACCOUNT AND OTHER PAYMENT ADJUSTMENTS

1. In the event that the Tropical Forest Agreement has entered into force but the Fund has not been fully constituted under Paraguayan law, the Board appointed, and a Fiscal Agent or Executive Director selected, the GOP shall make any Payment when due under Schedule A in U.S. dollars in the amount set forth in Schedule A into a USG account, as directed by Treasury through information provided to the GOP before the Closing Date (the "U.S. Treasury Escrow Account.") Amounts deposited in the U.S. Treasury Escrow Account shall not bear interest. Once the Fund is constituted, the Board appointed, and a Fiscal Agent or Executive Director selected, Treasury shall transfer promptly to an account, as designated by the GOP, all U.S. dollar funds in the U.S. Treasury Escrow Account. Within three (3) Business Days thereafter, the GOP shall then make a payment to the Fund in Local Currency, calculated by using the Exchange Rate, of an amount equivalent to the U.S. dollar funds transferred by the U.S. Treasury.
2. The GOP instructs USAID to transfer, as applicable, the 526 L015 July 2006 Payment, the 526 T028 July 2006 Payment, the 526 L021 August 2006 Payment, and the 526 L018 August 2006 Payment to the U.S. Treasury Escrow Account referred to in paragraph 1 above in the event that the Tropical Forest Agreement has entered into force but the Fund has not been fully constituted under Paraguayan law, the Board has not been appointed, and a Fiscal Agent or Executive Director has not yet been selected. Such transfer shall occur no later than 14 Business Days after the Closing Date.
3. In the event that the Fund has been fully constituted under Paraguayan law, the Board has been appointed, and a Fiscal Agent and Executive Director have been selected within 14 Business Days after the Closing Date, USAID, within 14 Business Days after the Closing Date, shall transfer, as applicable, the 526 L015 July 2006 Payment, the 526 T028 July 2006 Payment, the 526 L021 August 2006 Payment, and the 526 L018 August 2006 Payment to an account designated by the GOP. Within three (3) Business Days thereafter, the GOP shall then make a payment to the Fund in Local Currency, calculated by using the Exchange Rate, of an amount equivalent to the U.S. dollar funds transferred by USAID.

### Article IV

## CONDITIONS TO CLOSING

The obligation of USG hereunder to cancel the Old Obligations and substitute the New TFCA Obligations shall be subject to the fulfillment or waiver on or prior to the Closing Date of the following conditions, each of which shall be performed to the satisfaction of the USG:

- (a) The GOP shall have paid in full to USAID any amounts due under the Old Obligations up to, but not including, the Closing Date. For the avoidance of doubt, GOP shall continue to make payments to USAID under the terms and conditions, and according to the payment schedules, of the Old Obligations on any amounts due to USAID under the Old Obligations for the period between the Signature Date and the Closing Date. After the Closing Date, the 526 L015 July 2006 Payment, the 526 T028 July 2006 Payment, the 526 L021 August 2006 Payment, and the 526 L018 August 2006 Payment, as applicable, shall be transferred by USAID to the U.S. Treasury Escrow Account or an account designated by GOP in accordance with the procedures set forth in Article III, paragraphs 2 or 3.
- (b) The GOP shall have signed this Agreement and the Tropical Forest Agreement.
- (c) The Paraguayan Congress shall have ratified this Agreement and the Tropical Forest Agreement.
- (d) The USG shall have received from the GOP such further documents, opinions, and certificates as the USG shall reasonably request.

### Article V

#### FAILURE TO MAKE A PAYMENT OF PRINCIPAL OR INTEREST ON THE NEW TFCA OBLIGATION WHEN DUE

1. In the event the GOP does not make full payment of any installment under the New TFCA Obligations when due under this Agreement (each such due date hereinafter referred to as a "Payment Due Date"), the GOP shall within 7 Business Days commence discussions with USG to resolve such payment default. The GOP and the USG agree to use their best efforts to find a mutually acceptable solution.

2. Overdue Interest shall accrue on any overdue and unpaid installment of the New TFCA Obligations. The GOP shall make an Overdue Interest payment as soon as possible, without waiting for the due date of the next scheduled payment under the New TFCA Obligations.
3. Except as otherwise provided below, the GOP shall pay any Overdue Interest accruing on a due and unpaid Payment under a New TFCA Obligation directly to the Fund.
4. (a) Notwithstanding any other provision of this Agreement or the Tropical Forest Agreement, if the USG determines that any other condition under this Agreement or the Tropical Forest Agreement is not being substantially fulfilled and so notifies the GOP (the date of receipt of the notification being the "Notification Date"), the GOP shall commence discussions with the USG within seven (7) Business Days after the Notification Date to seek to resolve such matter. The GOP and the USG agree to use their best efforts to find a mutually acceptable solution. The GOP shall continue to make any Payment when due to the Fund after the Notification Date, unless otherwise instructed.  
  
(b) If the GOP and the USG are unable to find a mutually acceptable solution within sixty (60) Business Days following either a Notification Date or GOP's failure to make a full Payment on the Payment Due Date, including any accrued Overdue Interest, if applicable, the following procedures shall apply:
  - (i) the USG may require the GOP to pay immediately in U.S. Dollars any unpaid Payment under the New TFCA Obligations, including any accrued Overdue Interest, to the Fund;
  - (ii) the USG may, in its sole discretion, declare all, or any part of, future Payments under the New TFCA Obligations due and payable immediately in U.S. Dollars ("Accelerated Payments"), in which case, such amounts shall be paid to the Fund for distribution in accordance with the Tropical Forest Agreement unless Article IV, paragraph 4(b)(iii) below applies; and
  - (iii) the USG may, in its sole discretion, require that the GOP make unpaid and future Payments, including any accrued Overdue Interest, or Accelerated Payments, in U.S. Dollars to the U.S. Treasury Escrow Account until the USG, in its sole discretion, is satisfied that the conditions under this Agreement and the Tropical Forest Agreement are being fulfilled. If satisfied, the USG shall transfer funds to the Fund from the U.S. Treasury Escrow Account within 14 Business Days of such determination.

**Article VI  
AMENDMENT AND NOTIFICATION**

1. This Agreement may be amended with the written consent of both Parties.
2. All notices, consents, requests, instructions, approvals, and other communications provided for in this Agreement shall be in writing and shall be deemed validly given (a) on the date of delivery when delivered by hand, (b) on the date of transmission when sent by facsimile transmission during normal business hours with telephone confirmation of receipt, or (c) on the date of receipt in accordance with the records of receipt by a reputable overnight courier that maintains records of receipt, all addressed as set forth below (or to such other address as any Party shall have designated by notice in accordance with this Article VI to the other Party).

**FOR THE USG:**

Deputy Assistant Secretary  
International Development Finance and Debt  
Department of the Treasury  
1500 Pennsylvania Avenue  
Washington DC 20220  
Tel. (202) 622 0070  
Fax (202) 622 0658

**FOR THE GOP:**

Vice Minister of Economy and Integration  
Ministry of Finance  
Presidente Franco 173  
Asuncion, Paraguay  
Tel. (595-21) 490-391  
Fax (595-21) 441-474

**Article VII  
ENTRY INTO FORCE AND TERMINATION**

1. This Agreement shall enter into force on the date (the "Effective Date") that is forty calendar days after the date of the last signature hereto (the "Signature Date"), unless a party gives notice to the other party, prior to the expiration of that forty-day period, that it is unable to bring the Agreement into force.

2. This Agreement shall automatically terminate: (a) in the event that the Closing has not taken place on or before (i) September 7, 2006 or (ii) such later Business Day on or before September 29, 2006, as may be agreed by the Parties in writing on or before the date in

subparagraph (i) of this paragraph; or (b) if the Closing has occurred, upon the payment by the Government of Paraguay of all amounts due under the New TFCA Obligations.

IN WITNESS WHEREOF the undersigned, being duly authorized by their respective Governments, have signed this Agreement.

DONE at Asuncion, Paraguay, this 7<sup>th</sup> day of June, 2006, in duplicate in the English language.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA

FOR THE GOVERNMENT OF THE REPUBLIC OF PARAGUAY

**Schedule A**  
**Schedule of Payments: New TFCA Obligations**

Obligation 1		Obligation 2		Obligation 3		Obligation 4		Obligation 5			
Scheduled Principal	Scheduled Interest	Scheduled Principal	Scheduled Interest	Scheduled Principal	Scheduled Interest	Scheduled Principal	Scheduled Interest	Scheduled Principal	Scheduled Interest		
7/17/2006	\$ 100,670.54	\$ 9,145.96	11/9/2006	\$105,690.22	\$ 4,013.19	8/21/2006	\$ 42,010.30	\$ 2,692.11	1/20/2006	\$ 89,406.75	\$ 15,909.84
1/17/2007	\$ 101,928.92	\$ 7,887.58	5/9/2007	\$107,011.34	\$ 2,892.01	2/21/2007	\$ 42,585.43	\$ 2,166.98	2/29/2007	\$ 90,747.85	\$ 14,568.74
7/17/2007	\$ 103,209.03	\$ 6,619.47	11/8/2007	\$108,349.09	\$ 1,354.36	8/21/2007	\$ 43,067.12	\$ 1,635.29	8/20/2007	\$ 82,109.07	\$ 13,207.52
1/17/2008	\$ 104,493.07	\$ 5,329.43				2/21/2008	\$ 43,655.46	\$ 1,086.95	2/20/2008	\$ 93,990.71	\$ 11,925.98
7/17/2008	\$ 105,799.23	\$ 4,017.27				8/21/2008	\$ 44,150.61	\$ 551.88	8/20/2008	\$ 94,893.07	\$ 10,423.62
1/17/2009	\$ 107,121.72	\$ 2,694.78							2/20/2009	\$ 95,816.46	\$ 9,000.13
7/17/2009	\$ 108,460.34	\$ 1,355.75							8/20/2009	\$ 97,761.21	\$ 7,955.38
									2/20/2010	\$ 99,227.63	\$ 6,088.96
									8/20/2010	\$ 100,718.04	\$ 4,800.55
									2/20/2011	\$ 102,226.78	\$ 3,069.81
									8/20/2011	\$ 103,726.53	\$ 1,565.41
<b>Total</b>	<b>\$ 791,676.65</b>	<b>\$ 87,038.24</b>	<b>Total</b>	<b>\$ 921,050.65</b>	<b>\$ 8,058.50</b>	<b>Total</b>	<b>\$ 215,368.92</b>	<b>\$ 8,143.21</b>	<b>Total</b>	<b>\$ 81,193.65</b>	<b>\$ 3,044.74</b>
									<b>Total</b>	<b>\$ 1,060,622.10</b>	<b>\$ 97,826.74</b>
Obligation 6		Obligation 7		Obligation 8		Obligation 9		Obligation 10			
Scheduled Principal	Scheduled Interest	Scheduled Principal	Scheduled Interest	Scheduled Principal	Scheduled Interest	Scheduled Principal	Scheduled Interest	Scheduled Principal	Scheduled Interest		
11/15/2006	\$ 2,001.41	\$ 427.41	12/26/2006	\$ 40,210.20	\$10,061.68	12/8/2006	\$ 43,327.54	\$ 12,979.22	7/24/2006	\$ 43,958.41	\$ 16,860.69
5/15/2007	\$ 2,031.43	\$ 397.39	6/26/2007	\$ 40,813.96	\$ 9,458.72	6/9/2007	\$ 43,977.46	\$ 11,829.30	1/24/2007	\$ 44,618.60	\$ 18,221.30
11/15/2007	\$ 2,061.91	\$ 366.91	12/26/2007	\$ 41,425.66	\$ 8,846.52	12/8/2007	\$ 44,637.12	\$ 11,169.94	7/24/2007	\$ 45,268.08	\$ 17,582.01
5/15/2008	\$ 2,092.84	\$ 335.98	6/26/2008	\$ 42,046.94	\$ 8,225.14	6/9/2008	\$ 45,306.87	\$ 10,500.09	1/24/2008	\$ 45,967.41	\$ 16,872.69
11/15/2008	\$ 2,124.23	\$ 304.99	12/26/2008	\$ 42,677.64	\$ 7,594.44	12/9/2008	\$ 45,986.27	\$ 9,820.49	7/24/2008	\$ 46,666.92	\$ 16,169.18
5/15/2009	\$ 2,156.09	\$ 272.73	6/26/2009	\$ 43,317.81	\$ 6,964.27	6/9/2009	\$ 46,676.07	\$ 9,130.69	1/24/2009	\$ 47,366.77	\$ 15,489.33
11/15/2009	\$ 2,188.43	\$ 240.39	12/26/2009	\$ 43,967.57	\$ 6,304.51	12/9/2009	\$ 47,376.21	\$ 8,420.55	7/24/2009	\$ 48,067.12	\$ 14,772.98
5/15/2010	\$ 2,221.26	\$ 207.56	6/26/2010	\$ 44,627.09	\$ 5,644.99	6/9/2010	\$ 48,086.85	\$ 7,719.91	1/24/2010	\$ 48,768.13	\$ 14,051.97
11/15/2010	\$ 2,254.58	\$ 174.24	12/26/2010	\$ 45,296.49	\$ 4,975.59	12/9/2010	\$ 48,808.16	\$ 6,988.60	7/24/2010	\$ 49,479.55	\$ 13,320.15
5/15/2011	\$ 2,288.40	\$ 140.42	6/26/2011	\$ 45,975.94	\$ 4,296.14	6/9/2011	\$ 49,500.28	\$ 6,266.48	1/24/2011	\$ 50,202.75	\$ 12,577.35
11/15/2011	\$ 2,322.72	\$ 106.10	12/26/2011	\$ 46,665.38	\$ 3,606.50	12/9/2011	\$ 50,283.38	\$ 5,523.38	7/24/2011	\$ 51,016.69	\$ 11,823.41
5/15/2012	\$ 2,357.56	\$ 71.26	6/26/2012	\$ 47,365.96	\$ 2,908.52	6/9/2012	\$ 51,077.83	\$ 4,789.19	1/24/2012	\$ 51,781.94	\$ 11,068.18
11/15/2012	\$ 2,392.89	\$ 35.89	12/26/2012	\$ 48,076.05	\$ 2,196.03	12/9/2012	\$ 51,883.20	\$ 4,039.56	7/24/2012	\$ 52,558.67	\$ 10,281.43
			6/26/2013	\$ 48,797.19	\$ 1,474.89	6/9/2013	\$ 52,690.25	\$ 3,286.51	1/24/2013	\$ 53,347.05	\$ 9,489.05
			12/26/2013	\$ 49,528.87	\$ 742.93	12/9/2013	\$ 53,508.95	\$ 2,537.81	7/24/2013	\$ 54,147.26	\$ 8,682.89
						6/9/2014	\$ 54,339.48	\$ 1,837.28	1/24/2014	\$ 54,989.47	\$ 7,840.83
						12/9/2014	\$ 54,982.31	\$ 824.73	7/24/2014	\$ 55,783.66	\$ 7,056.24
									1/24/2015	\$ 56,620.62	\$ 6,219.48
									7/24/2015	\$ 57,469.93	\$ 5,370.17
									1/24/2016	\$ 58,331.98	\$ 4,508.12
									7/24/2016	\$ 59,206.96	\$ 3,689.14
									1/24/2017	\$ 60,085.06	\$ 2,745.04
									7/24/2017	\$ 60,966.49	\$ 1,849.81
									1/24/2018	\$ 61,911.16	\$ 928.67
<b>Total</b>	<b>\$ 28,483.75</b>	<b>\$ 3,060.87</b>	<b>Total</b>	<b>\$ 670,781.85</b>	<b>\$ 83,289.07</b>	<b>Total</b>	<b>\$ 831,847.83</b>	<b>\$ 116,767.67</b>	<b>Total</b>	<b>\$ 1,258,712.48</b>	<b>\$ 249,489.64</b>

\*See definition of 526L015 July 2006 Payment and Related Provisions

\*\*See definition of 526L021 August 2006 Payment and Related Provisions

\*\*\*See definition of 526L018 July 2008 Payment and Related Provisions

\*\*\*\*See definition of 526L026 July 2008 Payment and Related Provisions