



PD-AAA-816

UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
U.S.A.I.D. MISSION TO KENYA

615-0170

6150170 - ④

UNITED STATES POSTAL ADDRESS  
US AID/NAIROBI  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

INTERNATIONAL POSTAL ADDRESS  
POST OFFICE BOX 30261  
NAIROBI KENYA

Permanent Secretary  
Ministry of Finance and Planning  
P.O. Box 30007  
Nairobi, Kenya

October 31, 1977

Attention: Mr. W.P. Mayaka

and

Permanent Secretary  
Ministry of Works  
P.O. Box 30260  
Nairobi, Kenya

Attention: Mr. N.P. Radier,  
Chief Engineer (Roads)

Subject: Kenya Roads Graveling Project  
A.I.D. Project No. 615-0170  
Implementation Letter No. 4

Gentlemen:

Please refer to Mr. W.P. Mayaka's letter of October 24, 1977, Ref No. DV 9/03, requesting a sixty day extension of the terminal date for fulfilling the requirements of Section 5.2 (executed contract for engineering services) of the Project Agreement from October 29, 1977 to December 28, 1977.

In view of the fact that the engineering services contract now being negotiated with Frederic R. Harris is to call for services with respect both to the subject project and to the Rural Roads System Project (No. 615-0168), and that negotiation of this broadened scope of work will take more time than originally envisioned, the need for a sixty day extension is clearly justified. Your request, therefore, is hereby approved.

We would appreciate reviewing the contract in draft prior to its execution.

Sincerely,

*for*  
*Charles J. Nelson*  
Charles J. Nelson



UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
U.S.A.I.D. MISSION TO KENYA

Office of the Director,  
P. O. Box 30261,  
Nairobi, Kenya.

January 24, 1978

Permanent Secretary  
Ministry of Finance and Planning  
P.O. Box 30007  
Nairobi, Kenya

Attention: Mr. W.P. Mayaka

Permanent Secretary  
Ministry of Works  
P.O. Box 30260  
Nairobi, Kenya

Attention: Mr. N.P. Radier, Chief Engineer (Roads)

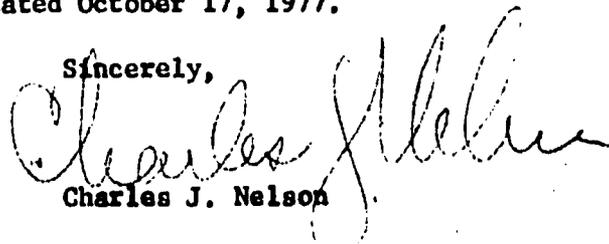
Subject: Rural Roads Systems Project  
Project No. 615-0168  
Implementation Letter No.6

Gentlemen:

We are pleased to acknowledge Mr. W.P. Mayaka's letter of January 20, 1978, Ref No. DV 9/03, designating Mr. Naftali Paul Radier, Chief Engineer (Roads), Ministry of Works, as an additional "Authorized Representative" of the Government of Kenya pursuant to Section 9.2 of the Project Agreement, and furnishing us with the required specimen signature.

Mr. Radier's name has been added to those of the representatives of the Government of Kenya previously designated by Mr. Mayaka's letter of October 7, 1977, relative to this Agreement, as confirmed by our Implementation Letter No. 2 dated October 17, 1977.

Sincerely,



Charles J. Nelson



UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
U.S.A.I.D. MISSION TO KENYA

UNITED STATES POSTAL ADDRESS  
NAIROBI (ID)  
DEPARTMENT OF STATE  
WASHINGTON, D. C., 20520

Office of the Director,  
INTERNATIONAL POSTAL ADDRESS  
POST OFFICE BOX 30261  
NAIROBI, KENYA

November 16, 1979

Permanent Secretary  
Ministry of Finance  
P.O. Box 30007  
Nairobi, Kenya

Attention: Mr. Z.N. Nyarango

Permanent Secretary  
Ministry of Works  
P.O. Box 30260  
Nairobi, Kenya

Attention: Mr. W.P.O. Wambura,  
Chief Engineer (Roads)

Subject: USAID Graveling Project 615-0170  
First Annual Work Programme - Western Province  
Implementation Letter No. 10

Gentlemen:

We have received your letter of October 29, 1979 (Ref. No. R 8496), subject as above, transmitting the GBC Work Plan Report for Bungoma District. Messrs. Pastic and Shah from the USAID Mission have previously discussed the contents of this report with your Messrs. Howie and Weishaupt on November 9, 1979. At that meeting it was agreed to add road D-282 to the candidate roads list, for spot improvement work. This addition was confirmed in your November 9, 1979 letter (Ref. No. R 8499/P95).

We are pleased to advise you of our approval of the following roads, (listed in order of construction priority):

- (1) D-258, from C-33 to C-31/C-32, 21.8 kilometers.
- (2) D-257, from D-258 to C-32, 12.0 kilometers.
- (3) D-279, from A-104 to C-42, 27.2 kilometers.
- (4) E-315, from C-42 to Kapketany, 6.7 kilometers.
- (5) E-316, from D-279 to Chebukwali, 8.4 kilometers.

- (6) E-317, from C-42 to D-275, 8.2 kilometers.
- (7) D-278, from C-33 to C-33/C-42 intersection, 11.7 kilometers.
- (8) D-277, from C-33 to C-32, 27.5 kilometers.
- (9) E-308, from A-1 to E-309, 15.8 kilometers.
- (10) D-282, from A-104 to C-44, 17.9 kilometers.

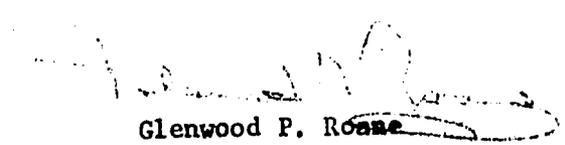
Roads E-277 and E-309 are not approved at this time. Both of these roads require the construction of new bridges, but as yet MOW has not submitted evidence of a workable bridging plan. We believe these roads would not provide the planned benefits without the required bridging. We would be pleased to reconsider including these roads in the candidate roads list upon receiving satisfactory documentation explaining when and how the bridging will be accomplished.

It is noted in Appendix D of the work plan - viz., September 10 correspondence from the Bungoma District Commissioner to MOW - that the D.C. is concerned with the status of Road D-275 because "most of efforts put in Rural Access Roads Programme in the area will be wasted unless this road is improved to all-weather standard." We also share his concern. In the interest of both the RAR and GBC programs, we wish to know MOW plans to bring road D-275 to all-weather standards.

We further recommend, in order to avoid adverse environmental impact, that all borrow pits be levelled prior to abandonment so as to prevent water from accumulating.

Finally, it is requested that you maintain suitable cost records by primary cost component and by road, in order that the cost-benefit relationships hypothesized in the project paper can be monitored, and subsequently used to guide the construction program.

Sincerely yours,

  
Glenwood P. Roane

UNITED STATES GOVERNMENT

# Memorandum

S Cole / PLS FV  
J Woot  
6150170-5

DATE: November 16, 1976

PD-AAA-816

TO : AFR/DR, Mr. Stephen Klein  
*REB*

FROM : PPC/DPRE/PR, Ronald E. Bobel

SUBJECT: Kenya - Roads Gravelling

As PPC's position on the proposed loan has been made clear in various meetings and memos, there is no need for our attendance at further Africa Bureau meetings on the subject.

With regard to the paper itself, it should be noted that it far exceeds the number of pages of Handbook 3 (no more than 50 page narrative nor more than 100 pages including annexes). Assuming the paper proceeds to the DLSC, the Bureau should delete appropriate sections so that we print only necessary material.

We have noted that many PRPs and especially PPs from the Africa Bureau are excessive in length and would suggest that the USAIDs and consultant teams be urged to reduce descriptive material and concentrate on analysis as a means to shortening these documents.

cc: PPC/DPRE, E. Hogan  
PPC/PIAS, R. Berg  
AA/AFR, J. Kelly

I concur on  
length. Can we cut  
anything out without a lot  
of extra work by John  
JK





Kenya 615-0170

Master Copy ~~6150170-6~~ 6150170-6

Department of State TELEGRAM

PD-AAA-8/6

UNCLASSIFIED 3613

PAGE 01 NAIROB 09541 040940Z

53  
ACTION AID-31

INFO OCT-01 AF-08 ER-27 IGA-02 /049 W 116437

R 040700Z SEP 76  
FM AMEMBASSY NAIROBI  
TO SECSTATE WASHDC 2294

UNCLAS NAIROBI 9541

AIDAC

F.O. 11652: N/A  
SUBJ: ROADS GRAVELLING OP ADDENDUM

REF (A) STATE 215116 (U) NAIROBI 8932

1. TEXT OF PROPOSED CHANGES SUBJECT DOCUMENT PER PARA. 2 REF A TRANSMITTED MOW AUG. 31.

2. MOW TELEPHONE REPLY RECEIVED SEPTEMBER 2. MOW MADE FOLLOWING TWO POINTS:

A. WITH REGARD LABOR VS. CAPITAL INTENSIVE CONSTRUCTION ISSUE PRESENTED IN FIRST THREE SENTENCES OF REF A DIRECT QUOTE, MOW CONCERNED THAT TEXT SEEMED IMPLY NEW REQUIREMENT THAT IT TRANSPORT FULL GBC UNIT WORK FORCE OF 60-80 PEOPLE TO EACH CONSTRUCTION SITE. THIS WOULD BE VERY EXPENSIVE AND CREATE SPECIAL PROBLEMS IN EACH LOCALITY. USAID EXPLAINED ITS INTERPRETATION WAS THIS SECTION PART OF DISCUSSION OF ISSUE AND DID NOT INDICATE ANY AID PROPOSAL THAT SUCH REQUIREMENT WAS TO BE APPLIED. USAID ADDED THAT SUCH REQUIREMENT WOULD HAVE TO BE ANOTHER SUBSTANTIVE CHANGE IN TEXT WHICH NOT INCLUDED REF A AND FOR WHICH USAID-MOW APPROVAL REQUIRED (REF B). IT CLEAR FROM CONVERSATION THAT MOW AGREES WITH USAID INTERPRETATION OF REF A'S BERGER TEXT THAT CAPITAL-INTENSIVE CONSTRUCTION IS FAVORED APPROACH OVER LABOR-INTENSIVE CONSTRUCTION. BUT MOW FEELS BERGER STATEMENTS NOT COMPLETELY ACCURATE. LABOR FORCE EACH GBC UNIT WILL INCLUDE SOME INSKILLED EMPLOYEES TO BE HIRED FROM LOCAL AREA FOR SUCH TASKS AS SORTING OUT TOOL ARGE PIECES GRAVEL FROM MURRAM. TRAINING NEEDED IS

UNCLASSIFIED



Department of State **TELEGRAM**

UNCLASSIFIED

PAGE 02

NAIROB 09541 040940Z

MINIMAL, AND SUCH WORKERS COMPRISE MINORITY OF UNIT WORK FORCE. IT THIS GROUP NOW CONCERNED AID/W AND BERGER MAY BE REQUIRING BE TRANSPORTED AROUND COUNTRY. REQUEST AID/W CONFIRMATION OF ABOVE USAID INTERPRETATION. FYI, THIS SUBJECT APPARENTLY DISCUSSED ONLY BRIEFLY BY NOW AND BERGER TEAM.

3. NOW DOES NOT RPT NOT CONCUR BERGER PROPOSAL CULVERT PLACEMENT BE DONE BY LOCAL CONTRACTORS. REASON IS THAT LOCAL CONTRACTORS DO NOT HAVE THE REQUIRED DEGREE OF COMPETENCE AND EXPERIENCE TO DO CULVERTING WORK (ALTHOUGH CAN DO BRIDGE CONSTRUCTION AND NOW PLANS USE THEM FOR THIS TASK). ALSO, CULVERTING NEEDS BE COMPLETED AND DONE CORRECTLY BEFORE GBC UNIT BEGINS WORK ON ROAD. IF LOCAL CONTRACTORS WERE TO BE USED FOR CULVERTING, NOW WOULD HAVE TO PROVIDE FULL-TIME SUPERVISION TO ENSURE JOB DONE PROPERLY. THIS NOT ONLY EXPENSIVE BUT WOULD REQUIRE DIVERSION SUPERVISORY STAFF FROM OTHER ASPECTS GBC PROGRAM, GRUM RAR AND MAINTENANCE ACTIVITIES WHERE THEY NEEDED.

3. MISSION REQUESTS CLARIFICATION FROM BERGER TEAM ON WHAT THEY HAVE IN MIND RE NATURE OF ADDITIONAL SUPPORT IN STATEMENT "ADDITIONAL SUPPORT FOR LOCAL CONTRACTORS FROM NOW SHOULD BE ENCOURAGED..."

4. RE PARA, 3 REF A, WISH REMIND AID/W THAT ANY PROPOSED SUBSTANTIVE CHANGES IN PP ADDENDUM ARISING FROM REVIEW PROCESS NEED BE DISCUSSED WITH USAID, NOW.  
MARSHALL

UNCLASSIFIED

UNITED STATES GOVERNMENT

# Memorandum

ENTERED  
9-17-76

*The Prof.*  
*PPCAP*  
*12/15/76*  
*Wilson plc.*  
*6150170-1*  
*File*  
*DATE: September 16, 1976 sp.*  
*PD-AAA-816*

TO : See Distribution

FROM : AFR/DR, Stephen Klein *SK*

SUBJECT: Kenya Roads Graveling Project Paper - ECPR

There will be a meeting of the Executive Committee for Project Review (ECPR) Wednesday, September 22, 1976 at 9:30 in Room 6944 to review the Project Paper for the Kenya Roads Graveling Project.

The purpose of the Project is to improve smallholder access to agriculture institutions, services and infrastructure, including inputs, credit, knowledge/extension to apply inputs, markets and/or storage facilities, roads and water.

Attached for your review are the original PP, submitted in March 1976, a PP addendum, submitted during the April Project Committee review; and an issues paper. Also attached is a memo presenting PPC views on the issues.

Attachments: a/s

DISTRIBUTION

AA/AFR:SScott  
TBrown  
DAA/AFR:HNorth  
AFR/DR:LHillson  
HJohnson  
AFR/DR/ARD:WLeake  
HKugler  
PWarren  
AFR/DR/ESAP:SCole  
JMalick  
AFR/ESA:OCylike  
TO'Keefe  
HAmes  
GC/AFR:EDragon

AFR/DP:CWard  
*Wilson Have Copy*  
EDonoghue  
SER/COM/ALI:JShollenberger  
TA/RD:EOwens  
CBlankstein  
PPC/DPRE:EHogan  
RBobel (6)  
SER/ENGR:PStearns  
RHenrickson  
AF/EP:RDuncan  
ESegall  
TREAS:JMaresca  
OMB:RNygard

UNITED STATES GOVERNMENT

# Memorandum

TO : AA/AFR, Mr. Stanley Scott

DATE: September 16, 1976

FROM : AFR/DR; John Withers

*Stephen Kleen*

SUBJECT: Kenya Roads Graveling Project Paper Issues

The Project Paper for the subject project was submitted to AID/W March 6, 1976 as "Agriculture Sector Loan II, Part A: Roads Graveling." During the initial Project Committee meeting held in April 1976, several substantive issues were raised and were subsequently discussed with USAID/Kenya and a Government of Kenya (GOK) delegation in the U.S. To address these issues, USAID/K, with consultant assistance, prepared an addendum to the PP. On September 7, 1976, the Project Committee reviewed the original PP and the addendum and raised a number of similar issues. Below is a discussion of these issues which are grouped as "Technical", "Economic" and "Financial."

## Technical Issues

1. How is the Roads Graveling project technically related to the proposed Rural Access Roads Program (RARP) and to on-going activities of the Ministry of Works (MOW)? Should the two programs be integrated into one Roads System project?

Discussion: Both the Graveling and RARP programs will be implemented by the Special Projects Branch (SPB) within the MOW. Both programs are national in scope. The GOK already has selected this administrative arrangement, and AID will be associated with only a part of it. The AID elements will be implemented in selected districts of the Western and Nyanza provinces of Kenya along with on-going MOW maintenance activities. The PP addendum recommends adoption of a road link selection criteria which would rely on integration of planning for the two projects thru the input of District Development Committees and application of specific traffic criteria (e.g., estimated average daily traffic). Integrated planning will assure that roads which are improved under the graveling project will be linked to access roads constructed under the RARP and vice-versa. However, implementation of the two projects will be carried-out by two separate units within the SPB/MOW. These two new investment projects will be implemented apart from on-going MOW maintenance activities. Is this the most cost effective way to achieve AID's objectives? To ensure that AID-funded equipment provided under the



Gravelling project is not diverted from its intended purpose, should the loan agreement include a specific agreement that equipment provided will be used for upgrading/improving class D and E (secondary) roads only? (For further discussion of this point, see issue 6.) The committee recommends that the Gravelling and RARP projects should be prepared as complementary documents, although packaged and processed separately, and that preliminary agreement be reached with the GOK on the integration of the prospective work to insure the two activities are mutually reinforcing to each other.

2. (a) What is the most appropriate method of contracting for project personnel - and AID-direct contract or a host-country contract?

Discussion: The PP (p. 62 of original PP) proposes that the three contract personnel be provided via an AID direct contract with an architectural and engineering firm. Since these personnel will serve in GOK line-positions in the MOW and will therefore be subject to the directions/rules/regulations of the GOK civil service agency. In this regard, the committee recommends that the host country assume the responsibility of contracting for its employees, using GOK funds to provide the base salaries and AID grant funds for "topping-off" these base salaries. This approach would increase the GOK contribution to the project by about \$15,000. The original PP projected an ETA for the first technician o/a January, 1977. However, since approval of the project has been delayed about seven months, it is anticipated that the arrival of the first technician on project site will slip to August/September, 1977. The committee agrees that this is probably adequate time for the GOK to process a host country contract. USAID/K should be informed that AID/W proposes host country contracting, and that AID/W requests USAID/K views.

(b) Should the contract for technical services be with an institution which provides complete personnel back-stopping or with an institution which simply locates and contracts with appropriate personnel?

Discussion: The PP (page 62) proposes that a contract be let with an engineering consultant firm. Such a firm would provide complete backstopping for project personnel (from simple logistics to office support in making key line decisions). Since the technicians will function in GOK line-positions (e.g., OPEX personnel), the committee agrees that these personnel should function independently without extensive backstopping from a U.S. firm. In this regard, the committee agrees that only the simplest logistical backstopping will be required (contract negotiations, etc.) and that a simple OPEX-type contract would suffice. The committee recommends AID financing for a contract with a firm to assist the GOK with the recruitment of the U.S. experts.

### 3. Roads Selection Procedure

Should an AID-funded expatriate technician (whether funded via AID-direct or GOK contract) be given the responsibility of final roads selection or should this be an internal GOK/Kenyan responsibility?

Discussion: The original PP proposes that the AID-funded project engineer (who will head the gravelling unit) be responsible for roads selection. The PP addendum proposes that roads for upgrading be first (a) evaluated by the SPB/MOW (in terms of technical criteria, national priorities, etc.), (b) reviewed by the District Development Councils - the lowest level planning bodies in the project area (in terms of local priorities), and finally (c) selected by the AID-funded SPB project engineer (See p. 75-76 of addendum). There is a secondary issue here of whether an illustrative list of roads should be agreed upon with the GOK prior to proceeding with the loan.

The committee suggests that final selection should be the responsibility of the GOK/a Kenyan rather than an expatriate. This would avoid potential political disputes between the national and local governments with an expatriate technician "in the middle" - (i.e., left to resolve the disputes).

### 4. Financial Issues:

Can the GOK afford the recurrent costs of maintaining the equipment and roads to be provided and constructed, respectively, under this project?

Discussion: The Mission Director has certified, per Section 611 (e) of the FAA, that the GOK has the financial and technical capability to effectively maintain and utilize assistance provided under the proposed loan (See original PP, Annex XIII). While the Project Committee agrees that the Kenya MOW has the technical capacity and capability to implement and effectively maintain assistance provided under this project (the MOW is generally referred to as one of the best public works agencies in black Africa), the Committee questions the implicit financial burden on the GOK to maintain the AID-funded equipment and up-graded roads. Several sections of the PP (original PP pages 5, 20, 27-30) attempt to justify the assumption that adequate maintenance funds will be allocated to the MOW. However, p. 30 of the original PP and p. 25 of the addendum point out that recently the "budget experience for regraveling (maintenance) programs has been less than satisfactory - i.e., only 54 percent of requested funds were allocated in 1975/76." As a result, significant amounts of existing equipment and personnel have been underutilized or unutilized. Yet the project proposes providing additional, similar road (maintenance) equipment. The PP proposes that the loan agreement contain a covenant that the GOK will supply funding adequate for continued support of construction and maintenance work on the AID project, in addition to

other present and projected construction and maintenance requirements (See p. 68, original PP). The committee suggests that in addition the loan agreement either include or reference a projected schedule of maintenance expenditures for the AID project and/or the entire gravelling program.

5. The PP proposes that AID loan fund a significant amount of foreign exchange and local cost items which are generally regarded as items for host-country financing.

Discussion: The PP proposes to loan fund (a) equipment spare parts equivalent to 60 percent of the value of AID-funded equipment (\$1.9 million) and (b) about 40 percent of the POL requirements of the gravelling unit (\$1.5 million). The Committee, on one hand, regards these levels of recurrent cost financing as very high. In view of the recent GOK's poor performance in maintaining its existing roads equipment, this level may, on the other hand, be warranted. More importantly, however, the Committee views the proposed level of loan-financed recurrent costs as a testament to the seriousness of the maintenance problem. The Committee recommends that we review the level of recurrent-cost financing with a view to reducing the magnitude of this financing.

#### Economic

6. The internal rate of return (IRR) of the project is estimated to be 10.2 percent. Does such a low IRR justify an AID investment of \$9 million in the proposed gravelling unit, and possibly \$17 million if AID finances a second unit requested by the GOK? (Page 12 of the original PP proposes AID financing of two additional gravelling units). Moreover, the project proposes such an investment in a relatively capital-intensive activity.

Discussion: The estimated IRR included in the economic analysis (pages 30-48 of Addendum) includes some benefits that will be derived from the proposed FY77 RARP and the Integrated Agricultural Development Project (IADP). This analysis should be carefully studied because of the inherent difficulty in disaggregating benefits among the three activities. The low IRR of the gravelling program results from directing/focusing the project on improved access to the most isolated areas which presently have the lowest productivity levels (See p. 41 of addendum). It does not attempt to include social benefits expected to be derived from increased access to these areas (i.e., improved social welfare). Admittedly, a higher IRR could be realized by either (a) integrating this gravelling project with the proposed RARP or (b) refocusing this project towards maintaining rather than upgrading secondary roads. Regarding (a) the former, the RARP will provide more direct benefits to the smallholders whereas the gravelling program will initially provide the majority of direct benefits to traders, transporters and vehicle owners (See table 18, p. 47 of Addendum). Moreover

the RARP will be a relatively local labor-intensive activity, thus providing greater direct benefits (i.e., wages) to the target group. To the extent that the gravelling program is integrated with the RARP, the direct benefits to the small holders and the IRR will be both increased. Regarding (b) the latter, because of the GOK's recent poor performance in allocating sufficient funds for maintaining secondary roads and existing equipment, an AID investment in encouraging better/improved maintenance operations should have a higher IRR than an AID investment in upgrading roads and providing additional equipment, although of course, AID has only been asked at this time to participate in the gravelling RARP. In this regard, it may be to AID's advantage, economically speaking, to encourage the secondary use of AID-funded equipment in improved and expanded maintenance operations (See issue #1). The committee recommends that AID consideration of the gravelling and RARP projects as complementary but separate projects would increase the direct social returns from higher employment and mitigate the capital intensive nature of the gravelling program.

7. AID should decide now whether it will look favorably on the proposal to fund one or any additional gravelling units under the proposed RARP, the final analysis of which is now underway.

Discussion: Throughout the project paper and addendum, reference is made to the possibility of AID funding an additional gravelling unit under the proposed FY 77 RARP. The consultant team is currently in Kenya preparing the final project analysis and PP for the RARP. The committee recommends that AFR decide whether to (a) approve the gravelling project separate from the RARP, and (b) whether AID will look favorably on funding additional gravelling units in FY 77 if this gravelling project is approved.

September 14, 1976

MEMORANDUM FOR: AFR/DR, Mr. Stephen Klein

FROM : PPC/DPRE, Edward Hogan

SUBJECT : Draft Issues Memo on Kenya Roads Graveling Project Paper

1. While the subject draft does touch on most of the major issues raised by DPRE, it does not cover them all, nor does it show the interrelation of most of the major points DPRE identified. Additionally, we do have problems with Committee recommendations for resolution of the same issues.

2. DPRE sees four major issues which are related and which should not, in our view, be treated in isolation. These are (a) capital intensive-ness of the project, (b) high initial and continuing import costs, (c) increased budgetary costs for operation and maintenance, and (d) a low internal rate of return (about two-thirds of what is normally considered as an acceptable guideline). It is our conclusion that all of these adverse factors might be offset to some degree by a substantial restructuring of the project, though a case would have to be made that such an effort is justified and would be acceptable to all parties.

3. Another issue concerns the low IRR (which is based on assumptions that need a more intensive examination) combined with a benefit incidence at the maximum to small farmers of not more than 43%, if all coop benefits are attributed to small farmers and the assumption about the amount of cost savings passed on by road users are correct. In addition, the paper is unable to show any social benefits which might in any significant way offset the low IRR.

4. We have not completed a review of the economic analysis, including the analysis in the supplement of indirect returns and must reserve on this. It may be an issue of major importance.

5. The significance and rational of the impact of change in budgeting procedures, see p.20 of supplement, needs elaboration. The discussion on MOW financial capability, see p.25 and Table 16, p. 44, needs to account for total maintenance cost increases, not just those related to the A.I.D. financed unit.

6. We strongly suggest that before further reviews of this project are held that the original PP and the supplement be integrated, that a substantial amount of the information in the Supplement be placed in Annexes, and that necessary corrections be made in the original text of the PP. Further, in view of the AFR decision not to attempt to authorize the project during the TQ, we suggest that reviews be deferred until after the end of the TQ when all interested parties will have the time to devote to serious consideration of the many major and minor issues connected with this project.

7. Note also comments on the draft memo on pp. 2 and 4.

Attachment: Draft memo - Kenya Roads Graveling Project Paper Issues

A.I.D. Project No. 615-0170

PD-AAA-816

PROJECT AGREEMENT

Between The

REPUBLIC OF KENYA ("The Government")

and the

UNITED STATES OF AMERICA

acting through

AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.")

ROADS GRAVELLING PROJECT

Date: July 1, 1977

PROJECT AGREEMENT dated the 1 st day of July, 1977, between the GOVERNMENT OF THE REPUBLIC OF KENYA ("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 Government of the Project described herein, 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 1, which is attached to and forms part of this Agreement, will consist of upgrading to an all-weather standard, approximately 800 miles of secondary and minor roads in Western and Nyanza Provinces. A.I.D. will assist in financing, through the provision of this Assistance, the cost of the Project inputs described in Annex 1.

Annex 1, attached, amplifies the definition of the Project contained in this Section 2.1. Within the limits of the definition of the Project in this Section 2.1., elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.3., without formal amendment of this Agreement. Annex 1 will identify those elements of the Project for which Grant financing will be employed, and those for which Loan financing

will be employed. A detailed description of the equipment to be procured and the services to be performed will be contained in Project Implementation Letters.

ARTICLE 3

Financing

SECTION 3.1. The Loan; The Grant. To assist the Government 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 Government under the terms of this Agreement a sum not to exceed seven million seven hundred thousand United States ("U.S.") Dollars (\$7,700,000) ("Loan") and to grant the Government under the terms of this Agreement not to exceed one million four hundred thousand U.S. Dollars (\$1,400,000) ("Grant"). The aggregate amount of disbursements under the Loan is referred to as "Principal". The Loan and the Grant together are referred to as the "Assistance".

The Loan may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the loan financed component of the Project described in Section 2.1. The Grant may be used to finance foreign exchange and local currency costs of services required for the grant financed component of the Project described in Section 2.1.

SECTION 3.2. Cooperating Country Resources for the Project.

(a) The Government agrees to provide or cause to be provided

for the Project all funds, in addition to the Assistance, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the Government for the Project will be not less than 25 percent of the total project costs, including costs borne on an "in-kind" basis. Such 25 percent is currently estimated to be U.S. \$3.2 million.

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is March 1, 1983, 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 Assistance will have been performed and all goods financed under the Assistance 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 Assistance for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1 no later than three (3) 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 Government, may at any time or times reduce the amount

of the Assistance 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 Government will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten years following the date of the first disbursement of the Loan 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) of each respective disbursement, and will be payable no later than six (6) months after the first disbursement of the Loan hereunder, on a date to be specified by A.I.D.

SECTION 4.2. Repayment. The Government will repay to A.I.D. the Principal 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 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 Government with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 4.3. Application, Currency, and Place of Payment.

All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.T.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C., 20523, U.S.A. and will be deemed made when received by the Office of Financial Management.

SECTION 4.4. Prepayment. Upon payment of all interest and any refunds then due, the Government may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms. (a) The Government 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 Kenya, which enable the Government 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 9.2, 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 9.2, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under Sub-section (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 the Government's Ministry of Finance and Planning in Kenya.

SECTION 4.6. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Government and A.I.D. relating to the Loan provisions of this Agreement will cease. However, with respect to any obligations arising out of the expenditure of Grant funds, this Agreement will remain in full force and effect.

## ARTICLE 5

### Conditions Precedent to Disbursement

SECTION 5.1. First Disbursement. Prior to the first disbursement of the Assistance, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Government 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 counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Government and that it constitutes a valid and legally binding obligation of the Government in accordance with all of its terms;

(b) A statement of the name of the person holding or acting in the office of the Government specified in Section 9.3, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(c) An executed contract for procurement services for the Project acceptable to A.I.D. with a firm acceptable to A.I.D.

SECTION 5.2. Additional Disbursement. Prior to the first disbursement of the Grant the Government 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. an executed contract for engineering and maintenance technical services, or, in the event the Government desires that A.I.D. should act on the Government's behalf to initiate the procurement of technical services, a written request by the representative specified in Section 9.3 for A.I.D. to so act.

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

SECTION 5.4. Terminal Dates for Conditions Precedent.

(a) If all of the conditions specified in Section 5.1 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 Government.

(b) If the condition specified in Section 5.2 has 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 cancel the then undisbursed balance of the Assistance, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Government. In the event of such termination, the Government will repay immediately the Principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate, except with respect to any obligations arising out of the expenditure of Grant funds.

ARTICLE 6

Special Covenants

SECTION 6.1. Project Evaluation. The Parties agree to implement, as part of the Project, the evaluation program described in Annex 1 elements of which may be changed by written agreement of the authorized representatives of the Parties named in Section 9.3, without formal amendment of this Agreement.

SECTION 6.2. Personnel Requirements. The Government covenants that it will provide all necessary trained construction and maintenance personnel required for the Project. To this end, the Government covenants that its existing training program for skilled construction and maintenance personnel will be expanded to meet the requirements of the Project without detracting from the support of other, present or projected, road construction and maintenance efforts.

SECTION 6.3. Continued Support. The Government covenants that it will supply funding adequate for the continued support of roads construction and maintenance work in the Project area, in addition to other, present and projected, construction and maintenance requirements.

SECTION 6.4. Road Selection Criteria and Procedures. The Government covenants that roads to be improved under the Project will be selected and evaluated in accordance with the procedures and criteria set forth in Annex 1 of this Agreement. The Government will submit to A.I.D. within sixty (60) days of the date of this Agreement, in form and substance satisfactory to A.I.D., a detailed plan of action for implementing the roads selection criteria and procedures contained in Annex 1. Procedures and criteria set forth in Annex 1 may be changed by written agreement of the authorized representative of the Parties named in Section 9.3 without formal amendment of this Agreement.

SECTION 6.5. Work Programs. The Government covenants to develop, and it will submit for joint Government-A.I.D. review, annual programs of work for the project construction unit. Such programs of work will

be submitted for joint Government-A.I.D. review at mutually agreed upon dates specified in Project Implementation Letters; however, the first such program will be developed and reviewed prior to the arrival in Kenya of the first shipment of A.I.D. financed project equipment. Unless otherwise agreed to by A.I.D. in writing, programs of work will be sufficient to identify, inter alia, the following:

- (a) planned roads for improvement;
- (b) types of planned improvements;
- (c) sequence of the improvements;
- (d) plan(s) for evaluation; and
- (e) that selection criteria and procedures have been followed.

More specific guidance as to the scope and content of these programs of work will be the subject of subsequent Project Implementation Letters.

SECTION 6.6. Spare Parts. The Government covenants that it will establish an appropriate, timely, and effective system for procuring and transporting spare parts provided for the Project and that it will establish a separate warehouse or store facility for storage of spare parts provided for the Project. The Government will submit, prior to the arrival in Kenya of the first shipment of A.I.D.-financed project equipment, a plan satisfactory to A.I.D. which describes in detail the proposed procurement, transportation and storage system for spare parts.

Procurement Source

SECTION 7.1. Foreign Exchange Costs. Disbursement pursuant to Section 8.1 ("Foreign Exchange Costs") will be used exclusively to finance the costs of goods and services required for the Project and meeting the following source and origin requirements, except as A.I.D. may otherwise agree to in writing and except as provided in the Standard Provisions Annex, Article C. with respect to Marine Insurance, motor vehicle procurement, and grant financed air transportation:

(a) except for ocean shipping, equipment and other goods and services financed under the Loan will have their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book in effect at the time orders are placed or contracts entered into for such goods or services;

(b) goods and services financed under the Grant will have their source and origin in the United States (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services) or in Kenya;

(c) ocean shipping financed under the Loan shall be procured from any country included in Code 941 of the A.I.D. Geographic Code Book in effect at the time contracts are entered into for such services. The requirements and limitations for such financing are more fully explained in Section C.6. of Annex 2.

SECTION 7.2. Local Currency Costs. Disbursements pursuant to Section 8.2 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 Kenya ("Local Currency Costs").

ARTICLE 8

Disbursements

SECTION 8.1. Disbursement for Foreign Exchange Costs. (a)

After satisfaction of conditions precedent, the Government may obtain disbursements of funds under the Loan or the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of the 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 or finance the procurement of commodities or services in the Government's behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under 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 contractors or suppliers for such goods or services.

(3) Banking charges incurred by the Government in connection with Letters of Commitment and Letters of Credit incident to the Loan will be financed under the Loan unless the Government instructs to the contrary. Such other charges, incident to the Loan, which the Parties may agree to may also be financed under the Loan.

SECTION 8.2. Disbursement for Local Currency Costs.

Upon the satisfaction of conditions precedent, the Government may effect the disbursement of funds under the Loan or the Grant for Local Currency Costs required for the Project in accordance with the terms of the Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement may be obtained:

- (1) by acquisition by A.I.D. with U.S. dollars
- (2) by A.I.D. (A) requesting the Government to make available the local currency for such costs, and (B) after making available to the Government through the Loan or amendment by A.I.D. of Special Letters of Credit of the Government or its designee, an amount of U.S. dollars equivalent to the amount of local currency made available.

the Government which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters;

(3) by such other means as the Parties may agree to in writing.

The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b) (1) above, the amount of U.S. Dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b) (2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation memorandum hereunder as of the date of opening or amendment of the applicable Special Letter of Credit.

SECTION 8.3. Other Forms of Disbursement. Disbursements of the Loan or the Grant 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, if funds provided under the Loan or the Grant are introduced into Kenya by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Government will make such arrangements as may be necessary so that such funds may be converted into currency of Kenya at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Kenya.

SECTION 8.5. Date of Disbursement. Disbursements of the loan by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Government 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 Government or its designee local currency acquired in accordance with Section 8.2 (b) (1); or (c) if local currency is obtained in accordance with Section 8.2. (b) (2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

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 address:

To the GOVERNMENT OF KENYA:

Mail Address: Permanent Secretary  
Ministry of Finance and Planning  
Post Office Box 30007  
Nairobi, Kenya

Address for Cables: FINANCE, NAIROBI, KENYA

To A.I.D.:

Mail Address: Director  
U.S. A.I.D. Mission to Kenya  
Post Office Box 30261  
Nairobi, Kenya

Address for Cables: USAID, AMEMBASSY, NAIROBI

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.

SECTION 9.3. Representatives. For all purposes relevant to this Agreement, the Government will be represented by the individual holding or acting in the office of Permanent Secretary, Ministry of Finance and Planning, and A.I.D. will be represented by the individual holding or acting in the office of the Director, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Government 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 9.4. Standard Provisions Annex. A "Combined Loan and Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

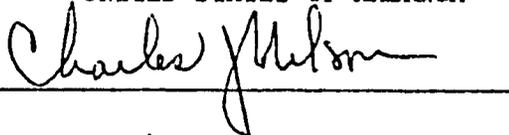
IN WITNESS WHEREOF, the Republic of Kenya and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

REPUBLIC OF KENYA

By: 

Title: Permanent Secretary MFA

UNITED STATES OF AMERICA

By: 

Title: Director, USAID

AMPLIFIED PROJECT DESCRIPTION

This amplified project description elaborates on the description provided in Section 2.1 of this Agreement. Except as may be specifically limited in this Annex, elements of the amplified description may be changed by written agreement of the authorized representative of the Parties named in Section 9.3 without formal amendment of this Agreement provided that any such change is made within the limits of the definition of the Project as set forth in Section 2.1.

A. The Project

The Kenya Roads Graveling Project will finance, from loan funds, imports of U.S. capital equipment, construction materials and spare parts, as well as a portion of the local currency costs of POL and spare parts, necessary to equip, operate and maintain one construction unit to function within the Graveling, Bridging and Culverting Program (GBC) of the Government's Ministry of Works (the Ministry). The construction unit will be used to upgrade approximately 800 miles of secondary and minor roads in Western or Nyanza Provinces to an all-weather standard. By upgrading these roads it is expected that smallholder farmer access to agricultural institutions, services and infrastructure will be greatly facilitated.

The Project will, additionally, finance with grant funds (a) approximately 13 worker-years of services of a Project Engineer who will work at the Ministry's Special Projects Branch, and a

Construction Superintendent and Maintenance Mechanic who will both work with the A.I.D.-provided gravelling unit, and (b) consulting services to evaluate the Project.

It is estimated that the unit should complete the scheduled work by approximately March 1, 1983 (Project Assistance Completion Date).

B. Road Selection Procedures and Criteria

Primary responsibility for the selection of roads to be upgraded under this Project will rest with the Ministry. The following system of procedures and criteria developed by the Ministry and A.I.D. identifies and assigns priorities for the construction unit. The system selects D and E roads which require improvement and are economically feasible and/or associated with local development projects. This selection process includes the MOW's evaluation of technical and economic criteria, as well as allowing for formal consultation between the MOW and DDC which is the local planning body in the project area. The selection procedure and criteria are as follows:

Step One

The MOW examines existing data and establishes a list of candidate roads. Supplemental data may be obtained from the DDC, or traffic counts and surveys may be conducted by the Ministry. These data will relate to road conditions, soil types and traffic levels.

Criteria

Non-all-weather links that are impassable during the year, which provide increased access to relatively isolated rural areas, which are

in areas where local inhabitants give high priority to road improvement and which (a) have average traffic levels greater than or equal to 20 ADT on good or fair soils, (b) have average traffic levels less than 20 ADT on good or fair soils and which connect to rural development project areas or all-weather roads on good or fair soils, (c) have traffic levels greater than 20 ADT on poor soils which connect to rural development project areas, and (d) all of above roads with gradients of 8 percent or more.

#### Step Two

MOW conducts an inspection of the candidate road list to determine the actual type of improvements needed.

#### Criteria

(a) Spot improvement when, on an average, 25 percent or less of the road links are impassable, when this procedure is technically feasible and when the average ADT is between 20 and 70, (b) construction to MOW standard roads (5.5 meter surface with 1.2 meter shoulders) where the ADT is greater than or equal to 70, and (c) built to MOW standards with bituminous seal on steep grades of 8 percent or more on sections with intense rainfall and where the ADT is greater than or equal to 60.

#### Step Three

The MOW submits the list to the DDC for their review and verification and to include other priority roads which in their view were not included in the list.

Criteria

(a) Local knowledge of road conditions, (b) local knowledge of present and planned rural development activities, and (c) local knowledge of present and future traffic levels.

Step Four

The MOW will prepare a final short list on the basis of the DDC's comments. This list will become the final "candidate roads" list.

Criteria

(a) Availability of funds, and (b) the output capacity of MOW.

Step Five

From this short list, the MOW develops an annual program of work for the GBC units.

Criteria

Select base area and subsequent work areas as those which have the largest percentage of highest priority roads (see Step One above) and which minimize necessary movement of the units.

Step Six

The MOW will submit the annual work plan to USAID for approval (note: the annual program is actually projected for eighteen months).

The traffic levels used for the above described selection process should be the future traffic in the opening year of the road. This traffic should include an allowance of 8 percent per year for growth from the last traffic count and 10 ADT for each significant development project to which the road is directly linked (to be verified by

evaluation). This would include a rural access road project, a health center or agricultural training center or any other project that can be expected to generate some traffic.

C. Evaluation

Subject to subsequent modification in Project Implementation Letters, annual evaluations will be undertaken commencing twelve (12) months from the date of satisfaction of initial Conditions Precedent. The initial evaluation will focus on the implementation phase of the project, a review of performance to date and whether any actions are required to head off problems that could arise at a later date. The initial evaluation will also review with the Ministry the baseline data that is being collected under their selection criteria to ensure it is adequate for future evaluations.

The annual evaluations will be broken down into two parts: engineering, which will be the primary responsibility of the USAID Project Manager (engineer), and the economic and social evaluation, which may require outside consultant expertise.

The engineering evaluation will measure progress against input and output indicators which will appear in a subsequent implementation letter. It will determine whether adequate human and financial resources are being made available by the Government, equipment utilization, adequacy of cost projections, meeting of construction schedules, etc., all in the light of achieving all-weather access.

The economic and social evaluation will determine if the forecast benefits are being achieved, the distribution of these benefits between farmers, traders and consumers, and whether distribution could be improved, the level of local participation in the project and the degree of coordination of A.I.D. programs and other Government rural development programs.

After one year of construction/improvement, the annual evaluation will, in addition to standard engineering and economic evaluations listed above, focus on the construction methodology itself. Combining experience gained from the CIDA and the A.I.D. GBC units, it is expected that a comprehensive evaluation of the effectiveness of the spot improvement methodology can be undertaken in order to determine if the A.I.D. financed GBC unit should continue to focus most of its work on spot improvements or if the unit should concentrate on full length gravelling. This evaluation will need to consider the engineering realities encountered on the roads already improved with spot gravelling as well as the economic benefits and costs associated with various improvement methodologies.

Private socio-economic consultants may be required to test the hypothesis that the rural roads proposed for financing under this program have a direct economic impact on the target group.

The fact that the project area also contains significant inputs from other Government and donor agriculture programs aimed specifically at small farmers enhances the value of such an evaluation. In most

instances, the A.I.D. road programs, including the role of the District Development Committees, will be coordinated with these agricultural programs. However, road construction will also be carried out in some locations where these other programs will not yet be operating, thus affording the opportunity to determine the importance of rural roads in the development equation.

A more detailed design of the evaluation activities broadly described herein and the obligations of the Parties with regard to these activities, will be the subject of Project Implementation Letters.

D. Financial Plan and Procedures.

Table I below indicates, by project component, the contribution to the project presently contemplated by the Parties. The financial plan represented by Table I is subject to change by the representatives named in Section 9.3 without formal amendment of the Agreement provided that such changes do not cause (a) A.I.D.'s grant and loan contributions to the Project to exceed the amounts stated therefor in Section 3.1, or (b) the Government's contribution to the Project to be less than the amount stated therefor in Section 3.2 (b). Shifting of funds between project components which has the effect of increasing or decreasing a particular component by more than 15 percent from the amount stated in Table I, may be undertaken only with the prior written agreement of the aforementioned representatives.

Project No. 615-0170

TABLE 1

PROJECT FINANCIAL PLAN

(000 US \$.)

As of June 30, 1977

<u>PROJECT COMPONENT</u>	<u>AMOUNT OF CONTRIBUTION</u>			<u>Total Project</u>
	A.I.D.		GOVERNMENT OF KENYA	
	<u>Loan</u>	<u>Grant</u>		
1. Equipment/Delivery	2,348		200	2,548
2. Spare Parts	1,409		200	1,609
3. Construction Materials	1,663		75	1,738
4. Technical Assistance		753		753
5. Procurement	364	400		764
6. POL	352		528	880
7. Camp Support			240	240
8. H.Q. Support			120	120
9. Local Labor			832	832
10. Training			300	300
11. Inflation	1,094		264	1,358
12. Contingency	470	47	441	958
13. Evaluation		200		200
<b>TOTAL</b>	<b>7,700</b>	<b>1,400</b>	<b>3,200</b>	<b>12,300</b>

Combined LOAN and GRANT

Project Standard

Provisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Loan and Grant 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 the Government 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 so that the purpose of this Agreement will be accomplished. At the end, the Parties, at the request of either, will exchange information on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, and suppliers engaged on the Project, and other matters relevant to the Project.

SECTION B.2. Execution of Project. The Government shall

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound financial, and management practices, and in conformity with the terms of the documents, plans, specifications, contracts, schedules, and other arrangements, and with any modifications therein, approved pursuant to this Agreement; and

(b) provide qualified and experienced management and such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, ensure that the Project to be operated and maintained in such manner as to ensure the continuing and successful achievement of the purposes of the Agreement.

SECTION B.3. Utilization of Goods and Services.

Goods and services financed under the Assistance will, unless otherwise specified, be devoted to the Project until the completion of the Project.

and thereafter will be used so as to further objectives sought in carrying out the Project.

(b) Goods or services financed under the Assistance, 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 Assistance will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in Kenya.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Assistance, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Assistance, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in Kenya, the Government 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 Assistance.

SECTION B.5. Reports, Records, Inspections, Audit. The Government 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 under the Assistance. 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 service 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 Assistance.

SECTION B.6. Completion of Information. The Government 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 Assistance, are accurate and complete and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement, and

(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. The Government affirms that no payments have been or will be received by any official of the Government in connection with the procurement of goods or services financed under the Assistance except fees, taxes, or similar payments legally established in Kenya.

SECTION B.8. Information and Marking. The Government will give appropriate publicity to the Assistance 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 Kenya will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

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

(d) Transportation by air, financed under the Grant, of property or persons (and their personal effects) will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Assistance 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 Government 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 Assistance, including documentation 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 Assistance, 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 proposals for goods and services financed under the Assistance will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contracts financed under the Assistance 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 Government for the Project but not financed under the Assistance, 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 Government for the Project but not financed under the Assistance 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 Assistance. Such items will be procured in whole or in part, under the Assistance. 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 Assistance, the Government 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 Kenya may not be financed under the Assistance 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 Government, 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 Assistance, if such goods or persons are carried: (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 Government, 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 Kenya 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 both any cargo transported from U.S. ports and 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 Kenya may be financed under the Assistance, as a Foreign Exchange Cost under this Agreement provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Government 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 Kenya 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 Government will insure, or cause to be insured, goods financed under the Assistance 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 Government 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 Government 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 Government agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Assistance should be utilized. Funds under the Assistance may be used to finance the costs of obtaining such property for the Project.

## ARTICLE D

### Termination; Remedies

SECTION D.1. Cancellation by the Government. The Government may, by giving A.I.D. 30 days written notice, cancel any part of the Loan or the Grant 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 the Government shall have failed: (a) to pay when due any interest or installment of principal required under this Agreement, or (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 Government 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 Government 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 Assistance will be attained or that the Government 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 Government shall have failed to pay when due any interest, instalment of principal or other payment required under any other loan, guaranty, or other agreement between the Government 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 commitment to third parties or otherwise, giving prompt notice thereof to the Government;

(2) decline to issue additional commitment documents or to make disbursement other than under existing ones; and

(3) at A.I.D.'s expense, direct that title to goods financed under the Assistance be transferred to A.I.D. if the goods are from a source outside Kenya, are in a deliverable state and

have not been offloaded in ports of entry of Kenya. 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 disbursement pursuant to Section D.3., the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Assistance that is not then disbursed or irrevocably committed to third parties.

SECTION D.5. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursement, 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 Government to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(b) If the failure of the Government to comply with any of its obligations under this Agreement has the result that goods or services financed under the Assistance are not used effectively in accordance with this Agreement, A.I.D. may require the Government to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) Any refund under subsection (a) or (b), 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 Assistance, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the cost of goods and services required for the Project, to the extent justified, and (B) the remainder, if any, (i) if derived from Loan funds, 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, and (ii) if derived from Grant funds, will be paid to reduce the amount of the Grant.

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Government under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Government.

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.

SECTION D.8. Assignment. The Government agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Government in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.