

UNITED STATES GOVERNMENT

Memorandum

4920280 (5)

4920280

PD-AAO-561

TO : EA/CCD, Mr. Norman Cohen

DATE: January 17, 1975

FROM : EA/DP, William S. Lefes

2083 3p

SUBJECT: Comments on Agriculture Research Loan-PRP, Philippines

I would like to reiterate several comments I made at the PRP review meeting followed by several suggestions to strengthen the evaluative elements of the project design.

(1) The linkage between the project's purpose, i.e., establish an institutional Agriculture Research capability at four research centers in small grains and legumes, and the benefits to small farmers appears to have a time frame that exceeds the five year limitation of the project. The benefits apparently will be realized at a time beyond the period contemplated for U.S. assistance. I believe we need to say this in the PP. The PP should also outline the organizational structure and capability that is currently in place to deliver technology innovations and new seed to farmer.

(2) Another question that may be treated in the PP is the age old problem of transferring technology and new seeds to small tenant farmers. Why should a small farmer in the Philippines outback adopt new seeds that may require an increase in his factor costs? Do the markets, pricing policies and transportation systems provide an incentive to the small farmer? This should be treated in the PP.

(3) It appears that achievement of the goal of the agriculture sector, as articulated in the log frame for the project, is dependent on the assumption; "that the GOP will maintain policies favorable to the application of new production technology (e.g., policy on pricing, credit, etc.) and that complimentary services and programs will be adequately available (e.g. extension services, agrarian reform, transportation, irrigation, etc.)"

The above stated assumption appears both realistic and critical if the goal is to be achieved. As the PRP is considered the "feasibility" document in the project design process, some evidence should have been provided to enable the reader to determine the degree of confidence in the assumption. In the absence of such evidence AID/W may well find itself in the dilemma of approving the PRP in the hope that satisfactory evidence to support the assumption will be forthcoming in the PP. If the assumption is not adequately supported in the PP, AID/W may be forced



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Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

to disapprove the project at the PP stage, an action that should be avoided at all possible costs as the investment of resources to complete an adequate PP is large.

(4) I agree with others who asked that additional detail be provided in the PP on the Mission's plans for inspecting facilities and approving payments, the budgetary impact salaries of scientific personnel are likely to have on the GOP budget and the importance of full and detailed ecological and environmental impact statements.

(5) Include the justification for and the duties of the proposed grant funded project officer and loan funded consultants.

(6) The Log Frame

The program goal calls for self sufficiency in production of basic food and feed grains. In order to provide adequate measurement criteria it will be necessary to provide some basic data of conditions as they exist today. For example, the number of hectares currently in basic food and feed grains, production levels, number of farmers, range of size of farms, variety of seeds used, generally the incidence of technological use and prevailing status of the marketing, transportation, parcing and other factors. These are merely illustrative and should be supplemented with other important elements. The idea for this type of data at the outset is to provide a basis for comparing similar data at some future date. While the project does not presume to effect all of these factors, it will, nevertheless, influence some of these and hopefully the effects will be traceable directly to the project.

The project purpose can be considerably strengthened and clarified by adding, "to create an agricultural Research Capability at the" Omit everything after, "... research centers." The rest of the statement belongs as a part of the end of project conditions and should be treated below. The purpose statement, therefore, is explicit and denotes an emphasis of helping the GOP to help itself in agricultural research, an objective that I believe is clearly within the scope of this loan proposal.

The End of Project Conditions and indicators of measurement need to be strengthened considerably. Examples of this follow:

End of Project Conditions

(1) The four research centers performing the required research in the quantity and quality necessary.

1.1 Research staff capable of planning, designing and implementing Agriculture Research activities particularly in rice and corn, in keeping with professionally accepted standards.

1.2. Research designs and plans for agricultural research : rice and corn reflect a reasonably adequate portfolio capability of yielding sufficient increases in production to make a significant impact in meeting the self sufficiency goal.

1.3. Research activities reflect PCAR strategy and priority considerations.

(2) Improved technology and seeds being introduced into production of food and feed grains on a continuing basis. (Note: I added "Seeds" and omitted "Regular". The former appears to be a part of the project's purpose and the latter appears too restrictive for research activity).

2.1. Pamphlets, brochures, news articles, radio programs, television and other media receive Research Center bulletins on a regular basis.

2.2. Crop specialists provide regular training and feedback to field Extension workers and farmers in public meetings, correspondence and brochures.

2.3. Field Extension Staff coordinate establishment of demonstration plots in a significant number of communities in their areas on new technologies and seeds.

2.4. Requirements to implement improved technology and seeds do not exceed the farmer's technical and financial capability.

(3) A National Agricultural Research Planning capability in PCAR.

3.1. A staff capable of establishing National Agriculture Research priorities and plans in coordination with other Philippine planning bodies.

3.2. National priorities plans issued periodically to Research Centers and monitored for compliance.

3.3. Agriculture Research priorities are coordinated with National Economic Development Plans and food and feed grain requirements.

cc: EA/CCD, L. Barnes

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Manila, Philippines

Ramon Magsaysay Center
1680 Roxas Boulevard

Telephone: 59-80-11

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January 9, 1976

The Honorable
Gerardo P. Sicat
Secretary of Economic Planning
National Economic and Development Authority
P. O. Box 1116, Manila

Dear Secretary Sicat:

Subject: AID Loan 492-T-039
Agricultural Research
Implementation Letter No. 1

This letter sets forth the procedures for utilization of the proceeds of the subject loan and provides information to assist you in implementing the Project in accordance with the Loan Agreement, dated December 23, 1975, between the Republic of the Philippines ("Borrower"), and the United States of America, acting through the Agency for International Development ("AID"). Nothing in this letter or its attachments is to be construed as modifying substantive rights or obligations under any provision of the Loan Agreement herein referred to or explained. This letter and its attachments may be supplemented or modified by subsequent implementation letters as necessary to meet special situations that may arise.

I. Conditions Precedent to Opening Letters of Commitment
for Procurement of Materials - Section 3.01

The conditions that must be satisfied prior to the initial disbursement under the subject Loan Agreement are listed below with applicable comments:

A. Legal Opinions - Section 3.01 (a)

Attachment A to this letter is made available to assist the Secretary of Justice of the Republic of the Philippines in preparing and

submitting the required legal opinion as to the validity of the obligations of the Borrower and the Philippine Council for Agricultural Research ("PCAR") under the Loan Agreement. The opinion should either be addressed directly to AID or officially forwarded by the Borrower.

B. Designated Representative - Section 3.01 (b)

The requirements under this Section are self-explanatory. In this connection you will note that the persons who will act as representatives of the Borrower and PCAR are the persons holding the offices named in Section 8.02 of the Loan Agreement.

C. Implementation Plan - Section 3.01 (c)

PCAR shall prepare and submit to AID a three-year implementation plan for the project, including a financial plan and time schedule. The plan should be prepared in detail, and should include a listing and description of each major step to be taken in implementing the project, actions to be taken to develop and implement the various elements of the project, organizational and/or staffing actions to be taken concerning the PCAR and/or the research centers, schedule for training programs, etc. The financial plan should contain estimates of peso and dollar requirements for each activity under the project, and should include a projection by source of funds available to finance project activities. The time schedule should specify each of the activities to be undertaken, including the estimated beginning and ending dates for each separate activity. Attachment B to this letter is made available to assist the PCAR in preparing the required implementation plan.

D. Assurance of Sufficient Funds - Section 3.01 (d)

The requirements under this Section are self-explanatory. Such written assurance should be signed either by the Director-General, National Economic and Development Authority ("NEDA") or by the Secretary of Finance.

E. Small Farmer Representation - Section 3.01 (e)

The requirements under this Section are self-explanatory. Farmer organizations representing the interest of small farmers may also be interpreted to mean agriculturally related producer cooperatives or similar organizations.

F. Contract(s) with Engineering Firms - Section 3.01 (f)

The Borrower should furnish AID a copy of an executed contract or contracts financed by PCAR with an Architect-Engineer (A&E) firm or firms satisfactory to AID or the Educational Development and Planning Implementation Task Force ("EDPITAF") to perform engineering services for the project including review and monitoring of planning and implementation and certification of completion of construction of buildings, infrastructure and land development in accordance with agreed plans and specifications. AID wishes to approve the scope of work and contract prior to execution, and the selection of the engineering firm(s) if other than EDPITAF.

II. Terminal Date for Meeting Conditions Precedent - Section 3.02

All of the conditions specified in Section 3.01 of the Loan Agreement must be met by April 21, 1976.

III. Funds to be Provided by Borrower - Section 4.02

This section requires that the GOP provide or cause to be provided all funds and other resources, in addition to the funds provided under the Loan Agreement, which may be needed for the completion, maintenance, repair and operation of the Project, and requires that the GOP contribute at least 25% of the costs of the entire project. This 25% minimum contribution is a statutory requirement and cannot be waived.

IV. Continuing Consultation - Section 4.03

Your attention is particularly called to the provision of Section 4.03 for continuous consultation between AID, the GOP, and PCAR to assure that the purpose of the Loan will be accomplished. The consultation should also contribute to the timely utilization of this Loan.

V. Management - Section 4.04

The GOP and PCAR are bound by this section to provide qualified and experienced management for the Project, and PCAR shall train such staff as may be appropriate for the maintenance and operation of the Project.

VI. Utilization of Goods and Services - Section 4.05

It is recognized that the useful life of goods financed by the Loan may exceed the duration of the project. AID wishes to be consulted and to agree in writing before such goods are disposed of or transferred to some other activity. The intention of this provision is not to restrict the use of such goods as the Borrower wishes, but to insure AID that such goods will be utilized for a purpose compatible with the original purpose of purchase.

VII. Taxation - Section 4.06

This section states the standard GOP/AID loan provision to the effect that certain consultants, contractors and their personnel being financed in whole or in part under the Loan will be exempted or excepted from Philippine taxes and duties of all kinds; that to the extent that such consultants and contractors and their personnel are not exempted from taxation and duties that such taxes and duties shall be paid for them or reimbursed to them by the GOP; and that no Loan funds will be used to pay or reimburse such taxes or duties.

This will confirm our prior understanding that the purpose of Section 4.06 is not to restrict the right of the GOP to tax local consultants or contractors whose services are financed in whole or in part under the Loan. It is our understanding that foreign (non-Philippine) consultants and contractors and their personnel will be exempted from all Philippine taxes and duties. It is our further understanding that local (Philippine) contractors and consultants and their personnel will be subject to Philippine taxes and duties in accordance with existing legislation of the Philippines. However, any amounts paid to local consultants, contractors, or their personnel which represent amounts which such local consultants, contractors or their personnel will have to pay to the GOP or any of its taxing authorities as taxes or duties of any kind will be a Philippine peso cost to be financed pursuant to Section 4.02 of the Loan Agreement, and will not be financed out of Loan funds.

VIII. Records and Audits - Section 4.10

AID will look to PCAR to either maintain or cause the individual research stations to maintain adequate records on utilization of the

loan funds, receipt and use of items eligible under the project, and progress and current operations of the individual research stations and of the PCAR. PCAR will be responsible for monitoring the performance of the individual research stations in this regard and will cause to be undertaken any audits necessary, including supplementary audits requested by AID to insure compliance with AID requirements.

The records required to be kept under Section 4.10 of the Loan Agreement should be maintained for at least five years after the final disbursement under the Loan.

IX. Reports - Section 4.11

AID will look to PCAR to establish a satisfactory reporting system for monitoring the implementation of the Loan, including the design, construction and operation of the individual research stations. PCAR in turn will submit to AID a monthly summary of progress on the sub-projects based on the detailed reports received from the individual research stations. The reports will cover engineering, training, procurement, financial and construction phases of the project.

The PCAR will also submit to AID a comprehensive semi-annual report indicating target achievements of the previous six months, the current status of the project, and projected project targets for the ensuing six months. This report should be submitted in January and July of each year.

A financial report of the operations of the Beneficiary, audited by an authorized agent of the Borrower, is to be submitted to AID annually at the close of the Beneficiary's fiscal year. The report should include a detailed Balance Sheet, Income and Expense Statement, Cash Flow Statement and such other documents as may be necessary to set forth the true and fair financial condition of the Beneficiary. Each audit should be submitted to AID on or before the expiration of one hundred and twenty (120) days after the end of the period covered by the audit.

With respect to shipping reports, see paragraph XIV. B. below.

X. Inspections - Section 4.12

AID requirements for right of inspections are spelled out in Section 4.12 and are self-explanatory. As noted, Borrower and PCAR

compliance with this provision must also include AID inspection rights with respect to the individual research stations.

XI. Procurement Source and Origin - Section 5.01 and Section 5.03

Procurement of services and commodities will be in accordance with and will reflect the procedures for procurement of AID Handbook 11, copies of which will be provided to PCAR.

A. The following material expands upon the requirements contained in Sections 5.01 and 5.03 of the Loan Agreement.

1. Eligible Source Countries. Eligible countries are the Republic of the Philippines and those countries included in AID Geographic Code No. 941. Code 941 includes the United States and "selected free world countries". It excludes certain designated countries as authorized sources of procurement of commodities. A complete list of countries which are excluded from the classification of "selected free world countries" is contained in AID Handbook 11.

2. Currency of Payment. When eligible goods or services are purchased in the U.S. or another eligible source country included in Geographic Code 941, payment will be made in U.S. dollars. When eligible goods and services are purchased in the Philippines, reimbursement up to an agreed percentage will be made through a special letter of credit.

3. Componentry Rule. A produced commodity is not eligible for AID financing if it contains any component from countries other than free world countries, as listed in AID Geographic Code 935. For eligible items under this loan, the cost, delivered to the point of production and including duties, of componentry from free world countries other than Code 941 countries may not exceed 50 percent of lowest price (excluding the cost of ocean shipping and marine insurance) at which the supplier makes the commodity available for export sale, whether or not financed by AID.

Thus, commodities financed under this Loan may contain components, costing up to 50 percent of the F.A.S. sale price, imported into the producing country from "upper income, free world" countries (i. e. , countries contained in Geographic Code 935, but excluded from

Geographic Code 941), unless AID specifies otherwise. Further, these commodities may include components imported into the producing country from Code 941 countries, without limitation. The finished commodity must, however, have been produced in an authorized source country.

4. Special Commodity Limitations. The procurement of motor vehicles is restricted to those of U.S. manufacture. However, vehicles manufactured in the United States may be procured in any authorized source country to which they have been shipped, either assembled or knocked down for assembly only.

5. Commodity-Related Sales Agents' Commissions. AID will finance in dollars eligible commissions of sales and service agents, including Filipino and third-country agents. However, it should be noted that commissions to importers, purchasing agents, or any third party in connection with a sale by a supplier to his dealer, distributor or established agent are not eligible for financing.

XII. Contracts - Section 5.05

Contracts and firms selected to perform such contracts must be reviewed and approved by AID prior to execution if such contracts are for goods or services for subprojects and the agreed amount for such subproject is in excess of the peso equivalent of \$100,000 or such subproject is one of a group of subprojects which are so interrelated that they result in a specific self-contained undertaking and the agreed amount for such group of subprojects is in excess of the peso equivalent of \$100,000.

In addition, you should be aware that all U.S. contracting firms and U.S. citizens performing services overseas under a principal contract or subcontract financed under the Loan must be acceptable to AID. Information which must be furnished to AID so that it may determine their acceptability is set forth in AID Handbook 11.

The employment of personnel to perform services under contracts financed under this Loan shall be subject to requirements with respect to non-U.S. citizens as set forth in AID Handbook 11.

XIII. Shipping and Insurance - Section 5.07

Subject to the limitations set forth in Section 5.07 of the Loan Agreement, discussed below, ocean shipping and marine insurance for shipment of Project commodities and equipment may be procured in AID Geographic Code 935 countries. However, please note that any marine insurance to be financed with Loan funds must have their source and origin in the Republic of the Philippines or AID Geographic Code 941 countries, and any ocean shipping to be financed with Loan funds must have its source and origin in AID Geographic Code 941 countries.

In complying with the provisions of Section 5.07 of the Loan Agreement, you will find the following specific guidelines to be of value:

A. 50/50 Shipping Requirements

The U.S. Cargo Preference Law applies to all AID-financed cargo. Therefore, at least 50 percent of the tonnage shipped in liner vessels, dry cargo tramps and tankers must move in U.S. flag vessels except when AID/Washington has determined that such vessels are unavailable (see paragraphs C and D below).

In addition, and given the same exception noted above, you should note that Section 5.07 also has a provision to the effect that 50 percent of the revenue on dry cargo liners must be paid to or for the benefit of U.S. flag vessels. Both the 50/50 tonnage and 50/50 revenue provisions must therefore be complied with.

B. Quarterly Shipping Reports

PCAR will be required to report information indicating actual progress in meeting the requirements of Section 5.07 of the Loan Agreement. These reports will show for each calendar quarter the extent to which the requirements of Section 5.07 are actually being met. The report should be in the form indicated in Attachment C (Borrower's Shipping Statement). The first report, covering shipments from inception of the Loan through the three-month period following the first disbursement, should be forwarded within ninety (90) days of the end of the period reported on. Subsequent reports, covering calendar quarters thereafter, should be forwarded within thirty (30) days of the end of the period reported on. Each report is to be supplemented by a covering

summary statement giving the cumulative actual figures, beginning with the initial report through the month of the latest report, for U. S. and non-U. S. flag vessels by category of vessels as applicable. If the summary report indicates a lag in compliance with Section 5.07, please include a statement indicating how the deficit in shipping by U. S. flag vessels is to be made up.

C. Prior Approval of Charters

Charters for the movement of AID-financed cargo, whether or not the charter itself is AID-financed, require prior approval in AID/Washington. Suppliers should submit requests for charter approvals by airmail to Resources Transportation Division, AID/Washington, Washington, D. C. 20523 (copy to USAID/Manila).

D. Tramp and Tanker Non-Availability

Tramp and tanker cargo determination of non-availability will be issued only on a case-by-case basis in conjunction with charter approvals.

E. Non-U.S. Flag Freight Costs

Subject to paragraph F below, the charges for shipping on vessels (or aircraft, where authorized) under flag (registry) of Code 941 source countries or on land transportation media are eligible for financing under this Loan.

F. Filing of Ocean Freight Rates

As a condition for AID financing of ocean freight on liner cargo shipped from other than U.S. ports, the carriers of such cargoes are required to file their freight rates with AID/Washington. Bills of lading submitted for reimbursement of ocean freight by AID, on shipments from other than U.S. ports, shall bear the following manually signed carrier's certification:

"The applicable ocean freight rates have been filed with Resources Transportation Division, AID/Washington, Washington, D. C. 20523.

"The freight charges shown hereon identify the rate and weight or measurement basis by which the ocean freight amount collected for the commodity shipped hereunder was calculated; such charges are exclusive of all credits, allowances, discounts, rebates, and other payments or benefits of any kind given or to be given by the carrier to or for the account of the commodity supplier, importer, or their agents."

G. Filing of Bills of Lading

In compliance with recent agreements between AID and the Maritime Administration, all suppliers of commodities financed by AID shall submit one rate copy of each bill of lading directly to Maritime Administration, Cargo Preference Control Center, Commerce Building, Washington, D. C. 20235.

H. Administration of Shipping Requirements

Complete responsibility for administering the 50/50 shipping requirement rests with the Government of the Philippines. AID/Washington will monitor compliance and refunds will be required in the event of non-compliance except to the extent that determination of non-availability of U. S. flag vessels have been issued to the Government of the Philippines. Should you experience any difficulty in meeting the cargo preference requirement in spite of the scheduled availability of U. S. flag vessels, please notify USAID/Manila.

XIV. Port Charges - Section 5.08

Eligible ocean freight charges on C&F or CIF shipments will be reimbursable by AID only to the extent of 90% of the freight charges, unless the bill of lading shows that the shipment is on a "free-out" basis, in which case AID will reimburse 98% of the freight charges. It is the responsibility of the Letter of Commitment approved applicant to set up suitable arrangements with the U. S. bank to assure that the portion of the freight not reimbursable by AID will be paid to suppliers simultaneously with the AID-financed portion. The U. S. bank shall not issue, advise or confirm any Letter of Commitment until such time as suitable arrangements have been made by the approved applicant. The foregoing is not applicable to eligible air shipments; AID will finance 100% of such air freight charges.

XV. Notification to Potential Suppliers - Section 5.09

The AID Handbook 11 contains procedures for notifying U. S. producers of export opportunities in connection with items financed under this Loan.

XVI. Excess Property - Section 5.10

For surplus, excess and/or contractor releasable assets (CRA), AID will allow procurement against an agreed commodity and equipment list which reflects the estimated quantities and general specifications of material to be acquired. This list is to be submitted to and approved by AID and may be modified from time to time with AID approval. To the extent feasible, AID will utilize its facilities to assist PCAR in obtaining any information available on surplus and excess equipment.

Payment procedures for eligible excess property acquisition will be similar to those utilized for GOP-financed acquisition except that payments may be charged against the Loan or the GOP trust fund.

XVII. Information and Marking - Section 5.11

The AID Handbook 11 contains procedures for satisfying the requirement that AID-financed commodities be marked with the clasped-hand emblem.

XVIII. Disbursements - Letters of Commitment - Section 6.01

Disbursements for U. S. dollar costs of services and commodities under the subject loan are expected to be by utilization of the Letter of Commitment procedure.

Upon notification by AID that all conditions precedent with respect to Section 3.01 have been met, AID/Washington will issue a Letter of Commitment to finance the U. S. Dollar costs of the related procurement. Letter of Commitment procedures and documentation required for payment thereunder are described in Attachment D hereto. It should be noted that AID Letters of Commitment are issued to U. S. banks only.

XIX. Special Letters of Credit - Section 6.02

Reimbursement for eligible local currency costs incurred by PCAR will be through U.S. dollar irrevocable Special Letters of Credit (SLC).

Reimbursement will be governed by the general procedures outlined in Section 6.02 of the Loan Agreement. Detailed instructions for establishment of the SLC will be contained in future Implementation Letters.

XX. Cancellation and Suspension - Article VII

As is indicated in Article VII of the Loan Agreement, AID would serve notice prior to taking any of the actions available to it. Further, AID would intend to explore fully with the Borrower any reasonable and practicable means of avoiding the necessity of invoking any of the provisions of Article VII prior to so doing. However, this statement of intention in no way diminishes AID's ultimate discretion to exercise its rights as defined in the Loan Agreement, should circumstances so dictate.

XXI. Representatives - Section 8.02

The Director of the USAID Mission to the Philippines, or anyone serving in that position in an acting capacity, and the Assistant Director for Capital Development, or anyone serving in that position in an acting capacity, are the authorized AID representatives for all purposes relative to this Loan Agreement. From time to time various other AID representatives may be designated for specific responsibilities with respect to this Loan.

We will be pleased to discuss with your representatives any problems or questions which you may have concerning the matters discussed in this letter or any other matters with respect to this Loan. In those instances where it appears appropriate, we will consult with AID/Washington for the purpose of obtaining information and/or developing solutions.

As a matter of procedure, we would appreciate your written acknowledgment of receipt of this letter.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John P. Hummon". The signature is fluid and cursive, with the first name "John" being particularly prominent.

John P. Hummon
Acting Director

cc: PCAR

Attachments:

- A - Guidance for Assistance of Counsel in Preparing Opinions Concerning Validity of Obligations of Governments and Governmental Agencies
- B - Implementation Plan - Guidelines
- C - Borrower's Shipping Statement
- D - Letter of Commitment Procedures

4920200
4920200 (7)
A.I.D. Loan No. 492-T-039
PD-ADD-561

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LOAN AGREEMENT

(Philippines: Agricultural Research)

BETWEEN THE

GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES

AND THE

UNITED STATES OF AMERICA

Date: December 23, 1975

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LOAN AGREEMENT

LOAN AGREEMENT dated the 23rd day of December 1975 between THE GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES ("Borrower"), acting through the NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY ("NEDA"), with the PHILIPPINE COUNCIL FOR AGRICULTURAL RESEARCH ("PCAR"), as the executing agency, and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D").

ARTICLE I

The Loan

SECTION 1.01. The Loan. A.I.D. hereby agrees to lend the Borrower, for the use of the Philippine Council for Agricultural Research ("PCAR"), pursuant to the Foreign Assistance Act of 1961, as amended, up to Five Million United States Dollars (\$5,000,000) ("Loan") to assist in financing certain foreign exchange costs of goods and services and an agreed upon portion of the local currency costs required for the project as defined in Section 1.02 hereof. Disbursement procedures for goods and services financed hereunder are specified in Article VI. The aggregate amount of disbursement under the Loan is hereinafter referred to as "Principal".

SECTION 1.02. The Project. In order to ultimately increase the productivity and income of small farmers, the proceeds of the Loan will be used to aid in improving the capability of four selected research centers for agricultural research aimed at results applicable to the needs of the small farmer; the Loan shall finance the foreign exchange and certain local costs to assist in providing facilities, including research laboratories and service buildings, advisory assistance on administration and specific crop research problems, manpower development through both in-country and international training, and laboratory and other equipment, materials and supplies.

ARTICLE II

Loan Terms

SECTION 2.01. Interest. The Borrower shall pay to A.I.D. interest which shall accrue on the outstanding balance of the Principal and any due and unpaid interest at the rate of 2% per annum for 10 years following the date of the first disbursement hereunder and at the rate of 3% per annum thereafter. Interest on the outstanding balance shall accrue from the date of each respective disbursement (as such date is defined in Section 6.04), and shall be computed on the basis of a 365-day year. Interest shall be payable semi-annually. The first payment of interest shall be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

SECTION 2.02. Repayment. The Borrower shall repay to A.I.D. the principal within forty (40) years from the date of the first disbursement hereunder in sixty-one (61) approximately equal semi-annual installments of Principal and interest. The first installment of Principal shall 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 2.01. A.I.D. shall provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 2.03. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder shall be made in United States dollars and shall be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, all such payments shall be made to the Controller, Agency for International Development, Washington, D.C., U.S.A., and shall be deemed made when received by the Office of the Controller.

SECTION 2.04. Prepayment. Upon payment of all interest and refunds then due, the Borrower may repay, without penalty, all or any part of the Principal. Any such prepayment shall be applied to the installments of Principal in the inverse order of their maturity.

SECTION 2.05. Renegotiation of the Terms of the Loan. The Borrower agrees to negotiate with A.I.D. at such time or times as A.I.D. may request, an acceleration of the repayment of the Loan in the event that there is any significant improvement in the internal and external economic and financial position and prospects of the country of the Borrower.

ARTICLE III

Conditions Precedent to Disbursement

SECTION 3.01. Conditions Precedent to Initial Disbursement.

Prior to the first disbursement or to the issuance of the first Letter of Commitment under the Loan, the Borrower or PCAR, as appropriate, shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) an opinion of the Secretary of Justice of the Borrower on behalf of Borrower and PCAR that Borrower and PCAR possess full power and authority to carry out all obligations undertaken hereunder, that this Loan Agreement has been duly authorized or ratified by, and executed on behalf of, the Borrower and PCAR and that this Loan Agreement is a valid and legally binding obligation of the Borrower, and PCAR in accordance with its terms;

(b) statements of the names of the persons holding or acting in the office of the Borrower and PCAR specified in Section 8.02

together with evidence of their authority and specimen signatures of each person specified in such statement;

(c) a plan for the implementation of the Project prepared by or on behalf of PCAR, including a detailed flowchart for the life of the Project and a projection of funds available to finance the various elements of the Project as well as the annual operating budgets of the research centers for the life of the Project;

(d) written assurance from the Borrower that sufficient funds will be made available to PCAR pursuant to Section 3.01 (c) above in order to assure timely and orderly implementation of the Project;

(e) written assurance from the Borrower that at least two members of the Technical Program Planning and Review Board (TPPRB) are from farmer organizations representing the interest of small farmers; and

(f) a copy of an executed contract or contracts with a local engineering firm or firms or the Educational Development and Planning Implementation Task Force (EDPITAF) to review plans and specifications for the construction of buildings, infrastructure and land development and to monitor such construction in a manner satisfactory to A. I. D.

SECTION 3.02. Terminal Date for Meeting Conditions Precedent.

If all of the conditions specified in Section 3.01 shall not have 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 giving written notice to the Borrower and PCAR. Upon the giving of such notice, this Agreement and all obligations of the parties hereunder shall terminate.

SECTION 3.03. Notification of Meeting of Conditions Precedent to Disbursement. A.I.D. shall notify the Borrower upon determination by A.I.D. that the conditions precedent to disbursement specified in Section 3.01 have been met.

ARTICLE IV

General Covenants and Warranties

SECTION 4.01. Execution of the Project.

(a) The Borrower and PCAR shall carry out the Project with due diligence and efficiency, and in conformity with sound engineering, financial, administrative and planning practices.

(b) The Borrower and PCAR shall cause the Project to be carried out in conformity with all of the plans, specifications, contracts, schedules, and other arrangements, and with all modifications therein, approved by A.I.D. pursuant to this Agreement.

SECTION 4.02. Funds and Other Resources to be Provided by Borrower. The Borrower shall provide, or cause to be provided, promptly as needed all funds, in addition to the Loan, and all other resources required for the timely and effective carrying out of the Project, on the further condition that these contributions by the Borrower shall constitute at least 25% of the costs of the entire Project.

SECTION 4.03. Continuing Consultation. The Borrower, PCAR and A.I.D. shall cooperate fully to assure that the purpose of the Loan will be accomplished. To this end, the Borrower, PCAR and A.I.D. shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Project, the performance of consultants, contractors, and suppliers engaged on the Project, and other matters relating to the Project.

SECTION 4.04. Management. The Borrower and PCAR shall provide qualified and experienced management for the Project, and PCAR shall train such staff as may be appropriate for the maintenance and operation of the Project.

SECTION 4.05. Utilization of Goods and Services.

(a) Goods and services financed under the Loan shall be used exclusively for the Project, except as A.I.D. may otherwise agree in writing. Upon completion of the Project, or at such other time

as goods financed under the Loan can no longer be usefully employed for the Project, the Borrower and PCAR may use or dispose of such goods in such manner as A.I.D. may agree to in writing prior to such use or disposition.

(b) Except as A.I.D. may otherwise agree in writing, no goods or services financed under the Loan shall be used to promote or assist any foreign aid project or activity associated with or financed by any country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION 4.06. Taxation. This Agreement, the Loan, and any evidence of indebtedness issued in connection herewith shall be free from, and the Principal and interest shall be paid without deduction for and free from, any taxation or fees imposed under the laws in effect within the country of the Borrower. To the extent that (a) any contractor, including any consulting firm, any personnel of such contractor financed hereunder, and any property or transactions relating to such contracts and (b) any commodity procurement transaction financed hereunder, are not exempt from identifiable taxes, tariffs, duties, and other levies imposed under laws in effect in the country of the Borrower, the Borrower shall, as and to the extent prescribed in and pursuant to Implementation Letters, pay or reimburse the same under Section 4.02 of this Agreement with funds other than those provided under the Loan.

SECTION 4.07. Operation and Maintenance. The Borrower and PCAR shall ensure that PCAR operates, maintains, and repairs the Project financed under this Loan in conformity with sound engineering, financial, and administrative practices and in such manner as to insure the continuing and successful achievement of the purposes of the Project.

SECTION 4.08. Disclosure of Material Facts and Circumstances. The Borrower and PCAR represent and warrant that all facts and circumstances that they have disclosed or caused to be disclosed to A.I.D. in the course of obtaining the Loan are accurate and complete, and that they have disclosed to A.I.D., accurately and completely, all facts and circumstances that might materially affect the Project and the discharge of their obligations under this Agreement. The Borrower and PCAR shall promptly inform A.I.D. of any facts and circumstances that may hereinafter arise that might materially affect, or that it is reasonable to believe might materially affect, the Project or the discharge of the Borrower or PCAR's obligations under this Agreement.

SECTION 4.09. Commissions, Fees, and Other Payments.

(a) Borrower and PCAR warrant and covenant that in connection with obtaining the Loan, they have not paid, and will not pay or agree to pay, nor to the best of their knowledge has there been paid nor will there be paid or agreed to be paid by any other person or entity,

commissions, fees, or other payments of any kind, except as regular compensation to the Borrower's or PCAR's full-time officers and employees or as compensation for bona fide professional, technical, or comparable services. The Borrower and PCAR shall promptly report to A.I.D. any payment or agreement to pay for such bona fide professional, technical, or comparable services to which it is a party or which it has knowledge (indicating whether such payment has been made or is to be made on a contingent basis), and if the amount of any such payment is deemed unreasonable by A.I.D., the same shall be adjusted in a manner satisfactory to A.I.D.

(b) The Borrower and PCAR warrant and covenant that no payments have been or will be received by the Borrower or PCAR, or any official of the Borrower or PCAR, in connection with the procurement of goods and services hereunder, except fees, taxes, or similar payments legally established in the Philippines.

SECTION 4.10. Maintenance and Audit of Records. The Borrower and PCAR shall maintain, in accordance with sound accounting principles and practices consistently applied, books and records relating both to the Project, subprojects and to this Agreement as A.I.D. shall subsequently set forth in Implementation Letters.

Such books and records shall be maintained for five years after the date of the last disbursement by A.I.D. or until all sums due A.I.D.

under this Agreement have been paid, whichever date shall first occur. Such books and records shall be regularly audited, in accordance with sound auditing procedures, for such period and at such intervals as A.I.D. may require.

SECTION 4.11. Reports. The Borrower and PCAR shall furnish to A.I.D. such information and reports relating to the Loan and to the Project as A.I.D. may request.

SECTION 4.12. Inspections. The authorized representatives of A.I.D. shall have the right at all reasonable times to inspect the Project, the utilization of all goods and services financed under the Loan, and the Borrower's and PCAR's books, records, and other documents relating to the Project, subprojects and the Loan. The Borrower and PCAR shall cooperate with A.I.D. to facilitate the visit by representatives of A.I.D. to any part of the Republic of the Philippines for any purpose relating to the Loan provided for herein.

ARTICLE V

Procurement

SECTION 5.01. Procurement from Selected Free World Countries.

Except as A.I.D. may otherwise agree in writing, and except as provided in subsection 5.07 (d) with respect to marine insurance, disbursements made pursuant to Section 6.01 and 6.03 shall be used exclusively

to finance the procurement for the Project of goods and services having their source and origin in the Philippines or in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts are entered into for such goods and services. Goods and services procured pursuant to this Section shall be referred to as "Selected Free World Goods" and "Selected Free World Services" respectively. All ocean shipping financed under the Loan shall have both its source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time of shipment.

SECTION 5.02. Eligibility Date. Except as A.I.D. may otherwise agree in writing, no goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement.

SECTION 5.03. Goods and Services Not Financed Under Loan. Goods and services procured for the Project, but not financed under the Loan, shall have their source and origin in countries included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time orders are placed for such goods and services.

SECTION 5.04. Implementation of Procurement Requirements. The definitions applicable to the eligibility requirements of Sections 5.01 and 5.03 will be set forth in detail in Implementation Letters.

SECTION 5.05. Contracts. Except as A.I.D. may otherwise agree in writing:

(a) All bid documents and documents relating to the solicitation of proposals for goods and services financed under Section 6.01 of the Loan shall be approved by A.I.D. in writing prior to their issuance.

(b) All other contracts, and all firms selected to perform such contracts, shall be submitted to A.I.D. for written approval, prior to execution, if such contracts are for goods or services for a subproject, which A.I.D. agrees to assist in financing under the Loan, and the agreed amount for such subproject is the peso equivalent of an amount in excess of \$100,000, or such subproject is one of a group of subprojects which are so interrelated that, upon completion, such subprojects result in a specific, self-contained undertaking and the aggregate agreed amount for such group of subprojects is the peso equivalent of an amount in excess of \$100,000.

SECTION 5.06. Reasonable Price. No more than reasonable prices shall be paid for any goods or services financed, in whole or in part, under the Loan, as more fully described in Implementation Letters, and:

(a) Items financed under Section 6.01 shall be procured on a fair and, except for professional services, on a competitive basis.

(b) No more than reasonable prices will be used in determining estimated subproject costs for any goods or services financed on a fixed amount reimbursable basis, in whole or in part, under the Loan. Such items shall be procured on a fair and, except for professional contract services, on a cost competitive basis wherever practicable.

SECTION 5.07. Shipping and Insurance.

(a) Selected Free World Goods financed under the Loan shall be transported to the country of the Borrower only on flag carriers of a country included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of shipment.

(b) Unless A.I.D. shall determine that privately owned United States-flag commercial vessels are not available at fair and reasonable rate for such vessels.

(i) Gross tonnage. At least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed under the Loan which may be transported on ocean vessels shall be transported on privately owned United States-flag commercial vessels, and

(ii) Revenue. At least fifty percent (50%) of the gross freight revenue generated by all shipments financed under the Loan and transported to the Philippines on dry cargo liners shall

be paid to or for the benefit of privately owned United States-flag commercial vessels.

(iii) Compliance. Compliance with the requirements of (i) and (ii) above must be achieved with respect to both cargo transported from U.S. ports and cargo transported from non-U.S. ports, computed separately.

(iv) Reporting. Within ninety (90) days following the end of each calendar quarter, or such other period as A.I.D. may specify in writing, Borrower or PCAR shall furnish A.I.D. with a statement, in form and substance satisfactory to A.I.D., reporting on compliance with the requirements of this Section.

(c) No such goods may be transported on any ocean vessel (or aircraft) (i) which A.I.D., in a notice to the Borrower, has designated as ineligible to carry A.I.D.-financed goods or (ii) which has been chartered for the carriage of A.I.D.-financed goods unless such charter has been approved by A.I.D.

(d) Marine insurance on Selected Free World Goods may be financed under the Loan with disbursements made pursuant to Section 6.01, provided (i) such insurance is placed at the lowest available competitive rate in the Philippines or in a country included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time of placement, and (ii) claims thereunder are payable in the currency

in which such goods were financed or in any freely convertible currency. If the government of the Borrower, by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D. - financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the country of the Borrower financed under the Loan shall be insured against marine risks and such insurance shall 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 of America.

(e) The Borrower shall insure, or cause to be insured, all Selected Free World Goods financed under the Loan against risks incident to their transit to the point of their use in the Project. Such insurance shall be issued upon terms and conditions consistent with sound commercial practice and shall insure the full value of the goods. Any indemnification received by the Borrower under such insurance shall be used to replace or repair any material damage or any loss of the goods insured or shall be used to reimburse the Borrower for the replacement or repair of such goods. Any such replacements shall have their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts are entered into for

such replacements, and shall be otherwise subject to the provisions of this Agreement.

SECTION 5.08. Port Charges. With respect to ocean freight costs which qualify as eligible for financing under the Loan, A.I.D. will finance ninety percent (90%) of all ocean freight costs of each shipment, and ninety-eight percent (98%) of such costs on any shipment under free-out terms. The remaining ten percent (10%), or two percent (2%) of a free-out shipment, represent port charges in the Philippines and Borrower covenants that it shall make available foreign exchange in accordance with procedures which may be prescribed by A.I.D. in Implementation Letters.

SECTION 5.09. Notification to Potential Suppliers. In order that all United States firms shall have the opportunity to participate in furnishing goods and services to be financed under Section 6.01 of this Loan, the Borrower or PCAR shall furnish to A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Implementation Letters.

SECTION 5.10. United States Government-owned Excess Property. PCAR will utilize, with respect to goods financed under the Loan to which PCAR takes title at the time of procurement, such reconditioned United States Government-owned Excess Property as may be consistent with the requirements of the Project and as may be available within a reasonable

period of time. PCAR will seek assistance from A.I.D. and A.I.D. will assist PCAR in ascertaining the availability of and in obtaining such Excess Property. A.I.D. will make arrangements for any necessary inspection and acquisition, and all charges incident to the transfer to PCAR of such Excess Property, may be financed under the Loan.

SECTION 5.11. Information and Marking. Borrower and PCAR shall give publicity to the Loan and the Project as a program of United States aid, identify the Project sites, and provide other markings or publicity as prescribed in Implementation Letters.

ARTICLE VI

Disbursements

SECTION 6.01. Disbursement - Letters of Commitment to United States Banks. Upon satisfaction by the Borrower and PCAR of conditions precedent, the Borrower or PCAR may, from time to time, request A.I.D. to issue Letters of Commitment for specified amounts to one or more United States 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, through the use of Letters of Credit or otherwise, for costs of goods and services procured for the Project in accordance with the terms and conditions of this Agreement. Payment by a bank to a contractor or supplier will be made by the bank upon presentation of such supporting

documentation as A.I.D. may prescribe in Letters of Commitment and Implementation Letters. Banking charges incurred in connection with Letters of Commitment and Letters of Credit shall be for the account of the Borrower and may be financed under the Loan.

SECTION 6.02. Reimbursement for Local Currency Costs.

(a) After acceptance by A.I.D. for work satisfactorily completed in accordance with provisions set forth in Implementation Letters, the Borrower may obtain periodic reimbursement by A.I.D. for such accepted work whenever reimbursable amounts of such completed work aggregate not less than \$250,000 but not more often than once a month by submitting requests to A.I.D. for the issuance of Irrevocable Special Letters of Credit ("SLC"), by one or more banks in the United States designated by the Borrower and satisfactory to A.I.D., to the Borrower or any designee of the Borrower pursuant to such documentation requirements as A.I.D. may prescribe in the SLCs and Implementation Letters. Such documentation shall include, among other things, evidence of Philippine general commodity imports from the United States of equal value to the dollars requested for disbursement excluding freight charges on all but U.S.-flag vessels. Banking charges incurred pursuant to this Section in connection with commitment documents and disbursements shall be for the account of the

Borrower and, if requested, may be financed hereunder.

(b) The rate of exchange that shall be used in determining the amount of dollars to be made available shall be the selling rate for U.S. dollars set by the Central Bank of the Philippines on the date of acknowledgment of receipt by USAID/Manila of an application for reimbursement, by the Borrower. Taxes, fees, commissions, and similar charges, if any, are not included in determining the appropriate exchange rate.

SECTION 6.03. Other Forms of Disbursement. Disbursement of the Loan may also be made through such other means as the Borrower and A.I.D. may agree to in writing.

SECTION 6.04. Date of Disbursement. Disbursements by A.I.D. shall be deemed to occur, in the case of disbursements pursuant to:

(a) Section 6.01, on the date on which A.I.D. makes disbursement to the Borrower, to its designee, or to a banking institution pursuant to a Letter of Commitment.

(b) Section 6.02, on the date on which A.I.D. opens or amends the SLC.

(c) Section 6.03, on the date on which A.I.D. makes disbursement to the Borrower or its designee under any other agreed form of disbursement.

SECTION 6.05. Terminal Date for Disbursement. Except as A.I.D. may otherwise agree in writing, no Letter of Commitment, Irrevocable Special Letter of Credit, or other commitment documents which may be called for by another form of disbursement under Section 6.03, or amendment thereto shall be issued in response to requests received by A.I.D. after June 23, 1980 and no disbursement shall be made against documentation received by A.I.D., or any bank described in Sections 6.01 and 6.02 after December 23, 1980; however, an SLC will remain available for drawdown for up to three years following the last upward adjustment in its face amount. At any time or times after aforementioned terminal disbursement dates, A.I.D. may at its option reduce the Loan by all or any part thereof for which documentation was not received by such date and apply any realized funds to a reduction in the outstanding Principal.

ARTICLE VII

Cancellation and Suspension

SECTION 7.01. Cancellation by the Borrower. The Borrower, may, with the prior written consent of A.I.D., by written notice to A.I.D., cancel any part of the Loan (i) which, prior to the giving of such notice, A.I.D. has not disbursed or committed itself to disburse, or (ii) which has not then been utilized through the issuance of irrevocable Letters of Credit.

SECTION 7.02. Events of Default; Acceleration. If any one or more of the following events ("Events of Default") shall occur:

(a) the Borrower shall have failed to pay when due any interest or installment of Principal required under this Agreement;

(b) the Borrower or PCAR shall have failed to comply with any other provisions of this Agreement, including, but without limitation, the obligation to carry out the Project with due diligence and efficiency;

(c) the Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between the Borrower or any of its agencies and A. I. D. or any of its predecessor agencies;

(d) any action by any governmental authority shall be instituted to dissolve or disestablish PCAR or to suspend its operations, or a substantial part thereof;

(e) any right, privilege, or other legal authority necessary for the conduct of PCAR operations for the completion of the Project, or for carrying out of the terms of this Loan Agreement, is revoked, cancelled, or denied in such manner as to make it improbable that PCAR will be able to perform their obligations under this Loan Agreement or that the Loan provided for herein will substantially fulfill the purposes for which it has been established;

Then A.I.D. may, at its option, give to the Borrower or PCAR notice that all or any part of the unrepaid Principal shall be due and payable sixty (60) days thereafter, and, unless the Event of Default is cured within such sixty (60) days:

(i) such unrepaid Principal and any accrued interest hereunder shall be due and payable immediately; and

(ii) the amount of any further disbursements made under then outstanding irrevocable Letters of Credit or otherwise shall become due and payable as soon as made.

SECTION 7.03. Suspension of Disbursement. In the event that at any time:

(a) An Event of Default has occurred;

(b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower or PCAR will be able to perform their obligations under this Agreement;

(c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.;

(d) The Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement, between the Borrower or any of its

agencies and A.I.D. or any of its predecessor agencies;

Then A.I.D. may, at its option:

(i) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through the issuance of irrevocable Letters of Credit or through bank payments made other than under irrevocable Letters of Credit, in which event A.I.D. shall give notice to the Borrower promptly thereafter;

(ii) decline to make disbursements other than under outstanding commitment documents;

(iii) decline to issue additional commitment documents;

(iv) at A.I.D.'s expense, direct that title to goods financed under the Loan shall be transferred to A.I.D. if the goods are from a source outside the country of the Borrower, are in a deliverable state and have not been offloaded in ports of entry of the country of the Borrower, in which event, A.I.D. shall give notification to the Borrower promptly thereafter. Any disbursement made or to be made under the Loan with respect to such transferred goods shall be deducted from Principal.

SECTION 7.04. Cancellation by A.I.D. Following any suspension of disbursements pursuant to Section 7.03, if the cause or causes for such suspension of disbursements shall not have been eliminated or corrected within sixty (60) days from the date of such suspension, A.I.D. may, at its

option, at any time or times thereafter, cancel all or any part of the Loan that is not then either disbursed or subject to irrevocable Letters of Credit.

SECTION 7.05. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursement, or acceleration or repayment, the provisions of this Agreement shall continue in full force and effect until the payment in full of all Principal and any accrued interest hereunder.

SECTION 7.06. Refunds.

(a) In the case of any disbursement not supported by valid documentation in accordance with the terms of this Agreement, or of any disbursement not made or used in accordance with the terms of this Agreement, A.I.D., notwithstanding the availability or exercise of any of the other remedies provided for under this Agreement, may require the Borrower to refund such amount in United States dollars to A.I.D. within thirty (30) days after receipt of a request therefor. Such amount shall be made available first for the cost of goods and services procured for the Project hereunder, to the extent justified; the remainder, if any, shall be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder. Notwithstanding any other provision in this Agreement

A.I.D.'s right to require a refund with respect to any disbursement under the Loan shall continue for five years following the date of such disbursement.

(b) In the event that A.I.D. receives a refund from any contractor, supplier, or banking institution, or from any other third party connected with the Loan, with respect to goods or services financed under the Loan, and such refund relates to an unreasonable price for goods or services, or to goods that did not conform to specifications, or to services that were inadequate, A.I.D. shall first make such refund available for the cost of goods and services procured for the Project hereunder, to the extent justified, the remainder to be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder.

SECTION 7.07. Expenses of Collection. All reasonable costs incurred by A.I.D., other than salaries of its staff, in connection with the collection of any refund or in connection with amounts due A.I.D. by reason of the occurrence of any of the events specified in Section 7.02 may be charged to the Borrower and reimbursed to A.I.D. in such manner as A.I.D. may specify.

SECTION 7.08. Nonwaiver of Remedies. No delay in exercising or omission to exercise any right, power, or remedy accruing to A.I.D. under this Agreement shall be construed as a waiver of any such rights, powers or remedies.

ARTICLE VIII

Miscellaneous

SECTION 8.01. Communications. Any notice, request, document, or other communication given, made, or sent by the Borrower, PCAR or A.I.D. pursuant to this Agreement shall be in writing or by telegram, cable, or radiogram and shall be deemed to have been duly given, made, or sent to the party to which it is addressed when it shall be delivered to such party by hand or by mail, telegram, cable or radiogram at the following address:

To Borrower:

Mail Address: National Economic and Development
Authority
P. O. Box 1116
Manila, Philippines

Cable Address: NEDAPHIL

To PCAR:

Mail Address: Philippine Council for Agricultural
Research
Los Baños, Laguna
Philippines

Cable Address: PCAR
College, Laguna
Philippines

To A.I.D.:

Mail Address: United States Agency for
International Development
c/o American Embassy
Manila, Philippines

Cable Address: USAID/AMEMB MANILA

Other addresses may be substituted for the above upon the giving of notice. All notices, requests, communications, and documents submitted to A.I.D. hereunder shall be in the English language, except as A.I.D. may otherwise agree in writing.

SECTION 8.02. Representatives. For all purposes relative to this Agreement, the Borrower will be represented by the individual holding or acting in the office of Director-General, National Economic and Development Authority; PCAR will be represented by the individual holding or acting in the office of Director General; and A.I.D. will be represented by the individual holding or acting in the office of the Director of the United States A.I.D. Mission to the Philippines. Such individuals shall have the authority to designate additional representatives by written notice. In the event of any replacement or other designation of a representative hereunder, Borrower or PCAR shall submit a statement of the representative's name and specimen signature in form and substance

satisfactory to A.I.D. Until receipt by A.I.D. of written notice or revocation of the authority of any of the duly authorized representatives of the Borrower or PCAR designated pursuant to this Section, it may accept the signature of any such representative or representatives on any instrument as conclusive evidence that any action effected by such instrument is duly authorized.

SECTION 8.03. Implementation Letters. A.I.D. shall from time to time issue Implementation Letters that will prescribe the procedures applicable hereunder in connection with the implementation of this Agreement.

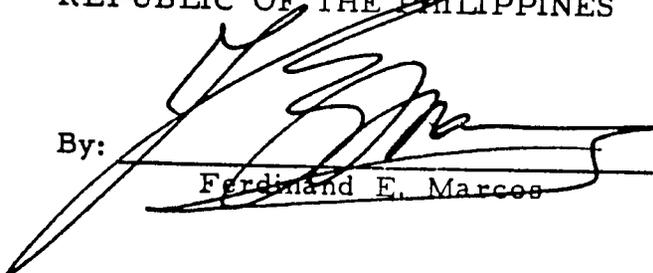
SECTION 8.04. Promissory Notes. At such time or times as A.I.D. may request, the Borrower shall issue promissory notes or such other evidences of indebtedness with respect to the Loan, in such form, containing such terms and supported by such legal opinions as A.I.D. may reasonably request.

SECTION 8.05. Termination Upon Full Payment. Upon payment in full of the principal and of any accrued interest, this Agreement and all obligations of the Borrower, PCAR and A.I.D. under this L eement shall terminate.

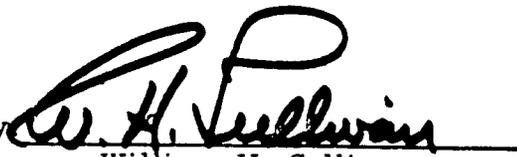
IN WITNESS WHEREOF, Borrower, PCAR and the United States of America, each acting through its respective duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

UNITED STATES OF AMERICA

By: 

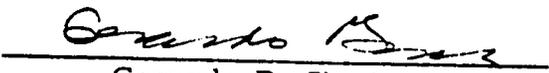
Ferdinand E. Marcos

By: 

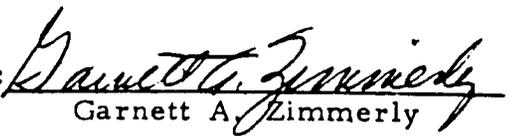
William H. Sullivan

Title: President, Republic of the Philippines

Title: Ambassador to the Republic of the Philippines

By: 

Gerardo P. Sicat

By: 

Garnett A. Zimmerly

Title: Secretary of Economic Planning and Director-General, I EDA

Title: Director, USAID/Philippines

MAR 1979

2p

Mr. Senen M. Miranda
Deputy Director General for
Operations
Philippine Council for Agriculture
and Resources Research
Los Baños, Laguna

Subject: A. I. D. Loan 492-T-039 (492-0280)
Agricultural Research I
Implementation Letter No. 16

Dear Mr. Miranda:

The purpose of this letter is to approve for purchase, under the subject loan, (tendering held November 20, 1978) two (2) soybean sheller units valued at Dols 10,990.50 as requested in your letter of February 27, 1979 to Mr. Bill McCluskey.

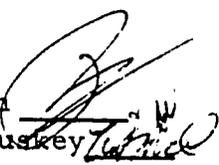
Sincerely,



William F. McDonald
Chief, Office of Capital
Development

cc: Mr. W. McCluskey, OAD
Dr. Jose Drilon, Director General
PCARR

Clearance:
CO:IPeterson
OAD:WMcCluskey



OCD:TRishoi:cdp:3/1/79
bcc: C&R-2, CO
bcc: AID/W ✓

2000

4/18/79
60/2/79
1p

ISSUES - Philippines Agriculture Research

1. The proposed project is essentially an institution building project to develop and improve the agriculture research capability in the Philippines (PP page 26 para 1). The impact of the project will probably not be felt by poor, small farmers until the 1980's (PP page 5, para 3). Does this project satisfy the now expressed Congressional intent (See Senate Appropriations Subcommittee Report) that FAA Section 103 assistance have an immediate and basic impact on the "poor majority" by having a straightforward and calculable relationship to the provision of food for hungry peoples?

Accepting that the above can be satisfied, the following pertains:

2. The logical framework (Annex C) has not been sufficiently improved to show the linkage between project's purpose and project goal. There are several intermediary steps between improved research capability (purpose) and increased income for small farmers (goal). These are not shown in the log frame.

A) The log frame is not presented in a narrative with supporting evidence for the assumptions.

B) The evaluation plan presented is PCAR's plan for evaluating research projects. It is not tied to the log frame to show how the purpose and goal of the project are or are not being met.

3. The PP does not adequately discuss how the results of research will reach and benefit small farmers. There are only assumptions that:

A) Research results can be transferred to small farmers (pp 23 and 41);

B) Small farmers will utilize new technology to increase yields (pp 5, 8, 11 . . .)

C) Increased income will result from (a) and (b) above (p. 36).

4. There are no suggested covenants or conditions precedent to indicate how A.I.D. may be able to assure the project will in fact respond to Congressional directions.

5. There are no suggested covenants or conditions precedent which will insure that the Government of the Philippines will provide the necessary support to the project, and take the necessary actions to assure its success.

*Mr. Handly**file 2/35*

MAR 16 1976

ACTION MEMORANDUM FOR THE DEPUTY ADMINISTRATOR

THRU: ES

/s/ Alexander Shakow

FROM: AA/PPC, Philip Birnbaum

SUBJECT: Philippines - Amendment to the Loan Authorization for the Bicol River Basin Secondary and Feeder Roads Project Loan (\$10,000,000)

6p

Problem: Because certain negotiated changes in the proposed loan agreement will vary with the conditions of the loan authorization, your approval is required on the attached loan authorization amendment.

Discussion: On December 31, 1975, you authorized the Bicol River Basin Secondary and Feeder Roads Project Loan to Philippines in the amount of \$10,000,000 (Tab B). Although the draft authorization was collaboratively developed with Philippines counterparts and unchanged in the AID/W process, the Government of Philippines (GOP) loan agreement negotiating panel felt certain modifications were necessary in the conditions precedent and covenants language as set forth in the approved authorization. As a result of the negotiations, compromise language changes have been worked out between USAID and the GOP.

Listed below are reasons for the proposed changes to the loan authorization amendment (Tab A):

- (1) Section B.1.a.(1) reflects a change in the documentation requirement, but still gives AID adequate assurance that the designated province will benefit from the BRBC program.
- (2) Section B.1.b.(2) reduces the authorities and responsibilities given to the Project Management Office (PMO). The original language gave PMO characteristics of a corporate entity with powers and responsibilities it could not legally exercise. Since construction funds are being advanced by the Department of Public Highways (DPH) only its representative (Regional Director) is legally empowered to enter into contracts and make disbursements. Since the DPH Regional Director was originally designated to be the PMO project manager, and apparently will continue to be so designated, and

having assurances that all other concerned parties will play an active role in PMO, we believe the implementation plan remains workable. The FAR procedure permits USAID to effectively intervene if there are any adverse consequences stemming from this change.

- (3) Section B.1.b.(3) adds the approval by the DPH and the Bicol River Basin Council (BRBC) of the project implementation plan.
- (4) Section B.1.b.(4). The negotiating panel feels the original language is too restrictive and is concerned that this evaluation team could make a recommendation completely unacceptable to the Government. The revised section is less restrictive, but contains a sufficient undertaking to effectuate recommendations made.
- (5) Section B.1.b.(5) adds "city roads," which is considered an improvement since they are also eligible for matching funds although normally in a smaller proportion.
- (6) Section B.1.b.(6) makes the Borrower, rather than a specific subordinate agency, responsible for maintenance of roads and bridges within the cities of Naga and Iriga.
- (7) Section B.1.c.(4) adds "the city governments of Naga and Iriga" with Albay and Camarines Sur provincial governments, as well as adds maintenance of "city roads" to this section.
- (8) Section B.1.c.(5) is a non-substantive word change.
- (9) Section B.1.c.(6). Instead of Borrower assuring that certain specified subordinate agencies will regulate and enforce established transport rates and regulations, the Borrower itself assures that these actions will be accomplished.

USAID supports and recommends approval of the proposed changes and we concur.

Recommendation: That you sign the attached loan authorization amendment.

Attachment:

Loan Authorization Amendment (Tab A)

Philippines Bicol Secondary and Feeder Roads Project (Tab B)

Clearances:

GC:CGladson _____

AA/ASIA:AZGardiner, Jr. _____

ASIA/CCD/EA:ELee:jck:3/12/76

Clearances:

DAA/ASIA: MHBadler _____
PPC/DPRE: AHandly _____
ASIA/EAA: SJLittlefield _____
ASIA/EAA/P: VElliott _____
GC/ASIA: FBloom _____
ASIA/DP: WLefes _____
ASIA/CCD: FCollins _____
ASIA/CCD: JRMcCabe _____
ASIA/CCD/EA: MMPehl (Draft)

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

File

OFFICE OF
THE ADMINISTRATOR

2/3C
A.I.D. Loan No. 492-T-041

CAPITAL ASSISTANCE LOAN AUTHORIZATION AMENDMENT

Provided from: Food and Nutrition

(Philippines: Bicol River Basin Secondary
and Feeder Roads Project Loan)

Pursuant to the authority vested in me as Administrator, Agency for International Development ("A.I.D."), by the Foreign Assistance Act of 1961, as amended, (the "Act"), and the Delegations of Authority issued thereunder, I hereby authorize an amendment of the authorization for the Bicol River Basin Secondary and Feeder Roads Project Loan dated December 31, 1975 as follows:

1. Sections B.1.b(1) through (6) shall be amended to read:
 - b. The loan agreement shall provide that prior to the first disbursement of loan proceeds, the Borrower shall submit, or cause to be submitted, the following in form and substance satisfactory to A.I.D.:
 - (1) Written assurance of the Borrower to include the Provincial Government of Albay as a member of the Bicol River Basin Council ("BRBC"), and designating the geographic areas of Albay Province within the Bicol River Basin watershed as eligible for assistance under the BRBC Program.
 - (2) A copy of the appropriate document of the Borrower establishing a composite Project Management Office ("PMO"), with authorities and responsibilities, including necessary delegations of authority from the Department of Public Highways ("DPH"), to enable the PMO to effectively carry out assigned functions.

- (3) A plan for the implementation of the project prepared by the PMO and approved by the DPH and BRBC, including a projection of funds that will be made available to finance the various elements of the project.
 - (4) A plan for socio-economic and construction evaluation of the project, the former by BRBC contract, the latter involving periodic review of the project by an evaluation team consisting of, inter alia, one representative of BRBC, National Economic Development Authority ("NEDA"), and A.I.D., and an undertaking by the Borrower that it will make every effort to implement recommendations of the project evaluation team in a timely and effective manner.
 - (5) Written assurances from the Borrower that all roads and bridges improved or constructed under this project that are classified as provincial roads and city roads will be eligible for annual maintenance funds as specified in Presidential Decrees 917 and 320 and that such funds will be provided in accordance with such Presidential Decrees.
 - (6) Written assurances from the Borrower that the roads and bridges improved or constructed under this project within boundaries of the chartered cities of Naga and Iriga will be properly maintained and that the required financial contribution shall be made by the cities, respectively, for this maintenance.
2. Sections B.1.c.(4) through (6) shall be amended to read:
- c. The loan agreement shall contain the following special covenants by the Borrower:

* * *

- (4) The Borrower shall ensure that the provincial governments of Albay and Camarines Sur and the chartered city governments of Naga and Iriga introduce the necessary policy and management reforms to effectively expand and operate their equipment pool operations to adequately maintain all provincial and city roads.
- (5) The Borrower shall ensure that the provincial governments of Albay and Camarines Sur as well as the chartered city governments of Naga and Iriga allocate adequate budgets to meet their respective shares of annual road maintenance costs.

- (6) The Borrower shall regulate and enforce appropriate transport rates for commercial vehicles in the Bicol River Basin area to enable equitable benefits from road improvements to flow to the rural poor and assure that vehicle maximum load regulations are enforced to reduce road deterioration and minimize maintenance costs.
3. In all other respects, the original loan authorization dated December 31, 1975 shall remain in full force and effect.

John E. Murphy
 Administrator (Acting)

3/17/76
 Date

Clearances:

Asia/CCD: Frank Collins, Jr.	<i>[Signature]</i>	Date	<u>3/15/76</u>
Asia/CCD: Milburn Pehl	<i>[Signature]</i>	Date	<u>3/15/76</u>
Asia/EAA: Vance L. Elliott	<i>[Signature]</i>	Date	<u>3/15/76</u>
Asia/DP: William Lefes	<i>[Signature]</i>	Date	<u>3/15/76</u>
Asia/TD: T.C. Clark	<i>[Signature]</i> for	Date	<u>3/15/76</u>
GC/Asia: Herbert Morris	<i>[Signature]</i>	Date	<u>3-11-76</u>
SER/ENGR: Merten Vogel	<i>[Signature]</i> for	Date	<u>3-15-76</u>
Asia/EAA: Sarah Jane Littlefield	<i>[Signature]</i>	Date	<u>3-15-76</u>
PPC/DPRE: Arthur Handly	<i>[Signature]</i>	Date	<u>3-15-76</u>
DAA/Asia: Michael H.B. Adler	<i>[Signature]</i>	Date	<u>3-15-76</u>
AA/Asia: Arthur Z. Gardiner, Jr.	<i>[Signature]</i>	Date	<u>3-15-76</u>
GC: Charles L. Gladson	<i>[Signature]</i>	Date	<u>3-15-76</u>

GC/Asia: PB1 *[Signature]* m:hp: 3/11/76