

UNITED STATES GOVERNMENT

Memorandum

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TO : Distribution

FROM : ASIA/PD/EA, J. R. Nussbaum

DATE: August 30, 1979

45p

SUBJECT: A.I.D. Loan No. 492-T-056 A&B - Project No. 492-0289
Bicol Integrated Area Development III

Attached for your information and files is copy of the subject document.

Attachment: a/s

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A.I.D. Loan No. 492-T-056A&B

A.I.D. Project No. 492-0289

PROJECT
LOAN AGREEMENT
BETWEEN
THE REPUBLIC OF THE PHILIPPINES
and the
UNITED STATES OF AMERICA
for
BICOL INTEGRATED AREA DEVELOPMENT III
(RINCONADA-BUHI/LALO)

Dated: August 1, 1979

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A.I.D. Loan No. 492-T-056A&P

A.I.D. Project No. 492-0289

PROJECT LOAN AGREEMENT

Dated August 1, 1979

Between

The Republic of the Philippines ("Borrower")

And

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

Article 1: The Agreement.

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project.

Section 2.1. Definition of Project. The Project, which is further described in Annex I, will consist of (1) the development and regulation of water from Lake Buhi to provide dependable dry season water to irrigate an additional 8,000 hectares, by constructing a lake control structure and forebay regulation facilities and excavating the outlet channel; (2) the rehabilitation of existing and construction of new irrigation and drainage facilities and farm access roads serving approximately 3,000 hectares in the Lalo system, and procurement of equipment necessary for adequate system

operation and maintenance; (3) the support of applied research, small-scale farmer organizational development, farm family and technician training in water management and improved production technology; and (4) when funds are made available in the succeeding A.I.D. loan amendments, the implementation of an agro-forestation and watershed development program to achieve a more productive and environmentally sound use of cultivated uplands and the protection of forested watershed areas.

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

Section 2.2. Incremental Nature of the Funding of the Project.

(a) A.I.D.'s contribution to the Project programmed at \$5.0 million, will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in Section 3.3(a) of this Agreement, A.I.D., based upon consultation with the Cooperating Country, may specify in Project Implementation Letters appropriate time periods for the utilization of funds provided by A.I.D., under an individual increment of assistance.

Article 3: Financing.

Section 3.1. The Loan. To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance act of 1961, as amended, agrees to lend the Borrower under the terms of this Agreement not to exceed Three Million Five Hundred Thousand United States ("U.S.") Dollars (\$3,500,000.00) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal".

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

Section 3.2. Borrower Resources for the Project.

(a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Borrower for the Project will be not less than the equivalent of U.S. \$3,859,000.00, including costs borne on an "in-kind" basis.

Section 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is June 30, 1985, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement.

(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 nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Loan Terms.

Section 4.1. Interest. The Borrower will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective disbursement, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months

after the first disbursement hereunder, on a date to be specified by A.I.D.

Section 4.2. Repayment. The Borrower 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 semiannual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9½) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

Section 4.3. 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.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, 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 Borrower may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

Section 4.5. Renegotiation of Terms.

(a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of the Republic of the Philippines, which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.1, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.1, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of Borrower's Director-General, National Economic & Development Authority in the Republic of the Philippines.

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 Borrower and A.I.D. under it will cease.

Article 5: Conditions Precedent to Disbursement.

Section 5.1. First Disbursement Prior to the first disbursement under the Loan, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties 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 the Project Loan Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(b) A statement of the name of the person holding or acting in the office of the Borrower, specified in Section 9.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(c) An evaluation plan for the irrigation and agricultural support components of the Project referred to in Section 6.1;

(d) A copy of the Philippine Government Order designating the National Irrigation Administration (NIA) as the lead line agency for implementation of the irrigation and the agricultural and institutional component, the Bureau of Forests Development (BFD) as the lead line agency for implementation of the subsequent agro-forestation and watershed development component, and the Bicol

River Basin Coordinating Committee (BRBCC) through the Bicol River Basin Development Program Office (BRBDPO) as the regional level coordinating body to ensure the effective and timely implementation of all components of the Project;

(e) A plan for the implementation of the Project prepared by NIA, including a quarterly projection of funds available to finance the various elements of the Project; and

(f) A copy of the appropriate water permit and related resolution issued by the National Water Resources Council (NWRC) covering all diversions of Lake Buhi water for multipurpose use as proposed in the Project.

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

Section 5.3. Terminal Dates for Conditions Precedent. 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 Borrower.

Article 6: Special Covenants.

Section 6.1. Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

(a) Evaluation of progress toward attainment of the objectives of the Project;

(b) Identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) Assessment of how such information may be used to help overcome such problems; and

(d) Evaluation, to the degree feasible, of the overall development impact of the Project.

Section 6.2. Hydrometeorological Program. The Borrower, through the BRBDP, in coordination with the National Water Resource Council (NWRC) and the Bureau of Public Works (BPW), shall:

(a) Establish or rehabilitate by January, 1980, unless the Parties to the Project Agreement otherwise agree in writing, sufficient hydrometeorological stations in the Rinconada-Buhi area of the Bicol River Basin, according to acceptable engineering standards;

(b) Operate and maintain such stations in accordance with sound engineering and management procedures;

(c) Collect, compute and tabulate current hydrological data required to properly design and operate existing and proposed irrigation systems;

(d) Provide operational staff with in-service training at least once a year;

(e) Provide for the semi-annual evaluation of the Hydrometeorological Program in the Bicol River Basin by the BRBDP inter-agency team which will include an analysis of data validity and reliability; and

(f) Provide that the annual project evaluations referred to in Section 6.1 shall assess the status of the Hydrometeorological Program.

Section 6.3. Land Production Levels Within the Project Area.
The Borrower, through the Ministry of Agrarian Reform, will assure that Barrio Committees on Land Production (BCLP) determine, based on values set as of October 21, 1972, and that MAR approve at the regional level, land production levels for all land to be affected by Operation Land Transfer within the Project area, and further that the land production levels so determined will serve as the basis for calculating farmer amortization and leasehold rent levels on 60% of the land area by December 31, 1979, and 100% by September 30, 1980, unless the Parties to this Agreement otherwise agree in writing.

Section 6.4. Land Tenure Documentation. The Borrower, through the Ministry of Agrarian Reform (MAR) will, by the target dates stated below, issue 100% of the Certificates of Land Transfer, and secure written leasehold instruments for 90% of the farmers eligible in the Rinconada-Buhi area (portions of 7 rural municipalities and 1 city) under Republic Act 3844, Presidential Decree 27 and subsequent implementing instructions (rice and corn land only). Minimum MAR performance for issuance of Certificates of Land Transfer is 70% and 100% and for securing leasehold instruments is 60% and 90%, respectively, by December 31, 1979, and December 31, 1980, unless the Parties to this Agreement otherwise agree in writing.

Section 6.5. Decentralization of Project Authority. The Borrower, through NIA, will, on a best effort basis accelerate on-going and planned efforts to develop the capability of the Bicol Regional NIA Office to plan, design and implement irrigation projects and shall delegate the authority and responsibility to carry out the same. Further, NIA shall develop the Bicol Regional NIA water management capability to assist farmers to organize irrigation associations and to operate and maintain completed project systems.

The Borrower shall cause NIA to prepare, by June 30, 1980, a plan to develop and strengthen the capabilities in NIA Region V and to proceed with its implementation in a timely manner.

Section 6.6. The Borrower, through NIA, will provide A.I.D. with a copy of the work and financial plan (Budget Form 121) approved by the Ministry, detailing financial requirements for the first operational year of the Project.

Article 7: Procurement Source.

Section 7.1. Foreign Exchange Costs. Disbursements pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project having 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 entered into for such goods and services ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex, Section C.1(b) with respect to marine insurance. Ocean transportation

costs will be financed under the Loan only on vessels under flag registry of the United States or the Republic of the Philippines, except as A.I.D. may otherwise agree in writing. If A.I.D. determines either that there are no vessels under flag registry of the Republic of the Philippines generally available for ocean transportation, or that the Republic of the Philippines has no access to U.S. flag service, A.I.D. in a Project Implementation Letter may agree to finance under the Loan ocean transportation costs on vessels under flag registry of any country included in A.I.D. Geographic Code Book 941.

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 the Republic of the Philippines ("Local Currency Costs"). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

Article 8: Disbursements.

Section 8.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or (B) requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project; or

(2) by requesting A.I.D. to issue 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 Letter of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

Section 8.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

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

(1) by acquisition by A.I.D. with U.S. dollars by purchase or from local currency already owned by the U.S. Government; or

(2) by A.I.D. (A) requesting the Borrower to make available the local currency for such costs, and (B) thereafter making available to the Borrower through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Borrower or its designee, an amount of U.S. dollars equivalent to the amount of local currency made available by the Borrower, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

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 the opening or amendment of the applicable Special Letter of Credit.

Section 8.3. Other Forms of Disbursement. Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

Section 8.4. Rate of Exchange. Except as may be more specifically provided under Section 8.2, if funds provided under the

Loan are introduced into the Republic of the Philippines by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of the Republic of the Philippines at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Republic of the Philippines.

Section 8.5. Date of Disbursement. Disbursements by A.I.D. will be deemed to occur:

(a) On the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order;

(b) On the date on which A.I.D. disburses to the Borrower or its designee local currency acquired in accordance with Section 8.2(b)(1); 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. Except as expressly provided in Section 4.3, 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 Borrower:

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

Alternate address for telegrams: NEDAPHIL

To A.I.D.:

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

Alternate address for telegrams: USAID/AMEMB MANILA

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.

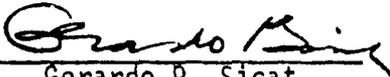
Section 9.2. Representatives. For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the Director-General, National Economic and Development Authority and A.I.D. will be represented by the individual holding or acting in the office of the Director, United States A.I.D. Mission to the Philippines, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex I. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

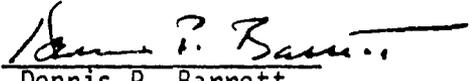
Section 9.3. Standard Provisions Annex. A "Project Loan Standard Provisions Annex" (Annex II) is attached to and forms part of this Agreement.

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

REPUBLIC OF THE PHILIPPINES

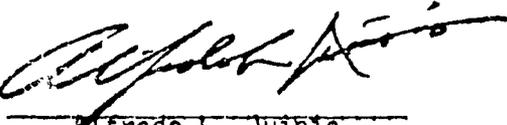
UNITED STATES OF AMERICA

By: 
Gerardo P. Sicat

By: 
Dennis P. Barrett

Title: Minister of Economic Planning
(Director-General)
National Economic &
Development Authority

Title: Acting Director
U.S. Agency for
International Development

By: 
Alfredo L. Junio

Title: Minister of Public Works
Ministry of Public Works

DESCRIPTION OF PROJECT

The Rinconada/Buhi-Lalo Integrated Area Development II₁ Project ("Project") is designed to improve the socio-economic situation and the quality of life of the rural poor residing in this area of the Bicol River Basin.

Activities to be funded by the Project include (1) construction of major water regulation facilities in the Lake Buhi vicinity; (2) rehabilitation and construction of irrigation facilities and access roads in the Lalo area and procurement of equipment for adequate system operation and maintenance; (3) supporting organizational, training, extension, and applied research activities; and (4) implementation of an agro-forestation and watershed development program in the Lake Buhi watershed.

A. Lake Buhi Water Source Development

Development of this water source involves the construction of a water regulatory/bridge structure at the outlet of the lake, channelization of a portion of the Barit River, and modification of the existing power station forebay structure at Santa Justina, Buhi.

1. Water Regulatory/Bridge Structure

A reinforced concrete control structure will be constructed at the lake outlet to allow regulation between elevations 79.3 and 83.0 MSL. Together with improvement of the Barit River channel, it will provide active storage capacity of some 66.6 million cubic meters of water. An overflow ogee section of approximately 40 meters will be constructed and abutted by four 2.5-meter wide steel-gated sluice-way openings. The super-structure will include a vehicular bridge.

2. Barit River Channelization

Sediment and dikes of boulders and gravel presently constrict water flow through the Barit River channel downstream from the lake outlet. Therefore, an estimated 2.75-kilometer stretch of the existing channel between the control structure and the power station forebay at Santa Justina will be deepened and improved to provide a bottom width of about 10 meters. The bottom grade elevation of the channel will be determined by the minimum power plant reservoir operating elevation of 79.0 meters.

3. Canal Headworks at the Power Plant Forebay

The headworks structure will be constructed through the left abutment of the forebay earth dike. The discharge capacity of this concrete box, conduit-type, steel-gated structure will be approximately 11.5 cubic meters per second (cms). This water will be bifurcated about 140 meters downstream with 3 cms. diverted into a left connector canal servicing the Lalo Irrigation System extension area. The balance of 8.5 cms will be discharged into the Barit River through a baffled chute-drop structure to meet the irrigation requirements of the Barit River Irrigation System and additional irrigation proposed for the Baao and Pili/Bula areas.

B. The Rehabilitation and Construction of Irrigation Facilities

The existing Lalo Irrigation System (1100 ha.) will be rehabilitated and the system service area extended over an estimated additional 1600 hectares of riceland and 300 hectares of convertible coconut land through the construction of new irrigation and drainage canals and structures, on-farm distribution systems, and a service road network.

1. Rehabilitation of the Existing Lalo Irrigation System

Sections of the existing main canal (approximately 0.8 km.) will be enlarged and its banks raised to accommodate increased diversions. Twenty-seven kilometers of service roads will be built along the main and existing lateral canals to facilitate system maintenance and improve farm access. Measurement structures will be constructed at the head of the main canal and each lateral canal. Approximately 10 steel check gates and an equal number of lateral gates will be installed in existing headgate structures. Drainage structures will be constructed where required. Finally, where not yet provided, main and secondary farm ditches and drains, together with appurtenant turnouts, division boxes, water measurement devices, checks, culverts and other structures will be constructed to further facilitate adequate water management.

2. Extension of the Lalo Service Area

Water for the Lalo extension area will be carried from the forebay headworks by an estimated two-kilometer left connector canal. A small amount of water will be diverted from this canal to the Santa Justina area, where new facilities will provide irrigation for about 97 hectares. The left connector canal will carry water across the Daraga River and discharge into the existing Lalo system main canal. The Daraga River crossing will consist of a reinforced concrete combination flume/bridge structure about 80 meters in length.

The enlarged main canal will, in turn, discharge water into the existing Lateral I. This lateral canal will be enlarged and extended another seven kilometers beyond its present terminus to serve as the primary conduit for the extension area. Within the extension area, two existing canals which have not received water to date will be enlarged and extended, and new lateral and sub-lateral canals constructed to extend irrigation service into the Bato vicinity. In total, some 21 kilometers of lateral canals will be built. These canals, together with some 125 kilometers of main and supplementary farm ditches, 39 kilometers of on-farm drains, 22 kilometers of secondary drains and complementary structures will provide year-round irrigation and drainage service for about 1600 hectares of riceland and up to 300 hectares of coconut land that can be converted to rice in the expanded Lalo irrigation system area. Measurement structures at the head of each lateral canal and gated turnout, division boxes and other appropriate water measurement devices will be constructed to enable adequate water management.

Nearly 21 kilometers of service roads will be constructed along the left connector canal, Lateral I extension and new laterals and sub-laterals. Construction of these roads and some 50 to 60 vehicle and pedestrian crossings will provide increased access as well as facilitate system maintenance activities.

A set of equipment for operations and maintenance will be procured under the Project for use in the Lalo and other associated Rinconada area irrigation systems (estimated cost \$380,000.00). This equipment, together with administration and laboratory activities will be housed in facilities constructed under the Project. Gatekeepers quarters and water management technician working stations will be constructed and linked with the system central office through a radio-communication system.

C. Agricultural and Institutional Development

1. Irrigators' Organizations

Under the Project, irrigator's organizations composed of farmer beneficiaries will be formed with the assistance of the NIA Project Management Office. The objectives of these organizational efforts are to ensure that farmers are institutionally capable of maintaining terminal distribution and drainage facilities and to involve them more meaningfully in project design, construction and water distribution decisions, including system monitoring and management activities.

The organizational model presently adopted by the NIA calls for a hierarchy of farmer groups based on the physical layout of irrigation facilities. Small groups identified with water use at the base will be represented in Farmer Irrigation Associations (FIAs) and a federation of FIAs at the apex. The

basic cell in this approach is the Rotational Unit Group (RUG) composed of 8 to 10 farmers drawing water from the same supplementary farm ditch. The members of each RUG will be responsible for maintaining their supplementary farm ditch and--with the help of NIA technicians--devising and implementing a mutually satisfactory schedule of water distribution from the ditch. About 280 RUGs will be formed in the Lalo area. Approximately 5 supplementary farm ditches and the same number of RUGs will receive water from each main farm ditch. Farmer Irrigators Groups (FIGs) will be organizations of farmers within main farm ditch service area. The FIG will maintain the main farm ditch and will be charged with delivering the proper amount of water to each supplementary farm ditch turnout. An estimated 60 FIGs will be organized under the Project. Regular NIA staff will operate and maintain the primary source and diversion structures, main canals and laterals. Water Management Technicians/Watermasters (WMT/WM) will be responsible for diverting adequate water from lateral canals and into main farm ditches. Each WMT/WM will be responsible for about 500 hectares. Each Farmer Irrigators Association (FIA) will have approximately the same area of coverage.

Each RUG will have its elected leader. From among these, the members of each FIG will select a chairman. The presidents of the FIAs will be elected from among the respective FIG chairmen. The presidents of the six FIAs planned for the Lalo system will become members of the Board of Management of the Federation of FIAs established at the system level. This Board will deal directly with agencies involved in Project implementation, operation and maintenance. It will oversee grievance proceedings and training and extension activities. Initially, NIA will be responsible for collection of water fees. The design calls for assumption of this and related functions by the federation of FIAs and its component parts as soon as possible.

2. Rural Improvement Club Support

The Project will support training activities of the Ministry of Agriculture for approximately 20 Rural Improvement Clubs in the Buhi-Lalo area. These activities will (1) address traditional concerns of rural women as homemakers and mothers, and (2) support the choice of a transitional mother-worker role. Home management training including nutrition, health, sanitation, family planning and child care will address the more traditional concerns of some 2,500 women living in the area. Additionally, cottage industry and small-scale business management skills will be developed. The organizations themselves will serve as centers for organizing cottage-level enterprises and for future barangay day-care centers should the need become manifest.

3. Water and Farm Management Training

Under the Project, intensive training at the NIA Water Management Training Center in Munoz, Nueva Ecija will be provided

for at least 5 members of the Project Management Office (PMO) staff. They will then conduct water management training activities for NIA operation and maintenance personnel detailed to the Lalo system, the rotational unit group leaders of the proposed irrigators' organization, and the estimated 2,500 farmers due to receive water from the rehabilitated and extended facilities. Farmer training sessions in the barangays and at the project-rehabilitated NIA regional training facility will provide information regarding the course of project implementation and construction activities, the rudiments of system design and operation, detailed farm-level water management recommendations, and the responsibilities of farmers as end-water-users. Where feasible, other line agency personnel will be included in these farmer training activities to teach improved production methods and encourage cooperative credit and marketing efforts. A special training session of rotational unit group leaders is designed to improve their technical competence and qualify them for positions in the farmer irrigators groups, farm irrigators associations, and federation of irrigators' associations.

4. Farm Level Production Trial/Demonstrations

Ten or more farm-level crop trial/demonstrations will be carried out to determine and exhibit productive combinations of high-yield varieties, fertilizers, pesticides, other inputs and practices which complement the new and improved irrigation service. The information generated will be used by extension agents in their training and extension programs.

D. Agro-forestation/Watershed Development

The principal outputs over five years of the agro-forestation/watershed development component are direct land improvements on an estimated 1350 hectares--farmed by 900-small-scale upland farmers--and reforestation of 800 hectares of denuded public forest lands. To meet family rice and corn requirements, up to 270 hectares will be bench-terraced or contour-farmed. Approximately 900 hectares of family orchard lots and 180 hectares of household firewood lots will be established. Project interagency implementation staff will be oriented and trained. Farmer groups will also be organized and trained in improved production methods and conservation. Seedlings of orchard and forestry tree species will be raised in project nurseries on site and/or secured from GOP agencies based on the feasibility of transportation. Graded mountain trails will be constructed or improved to facilitate access for production inputs, marketing of produce and forestry protection personnel.

The agro-forestation/watershed development component will be initiated in 1981 based on the outcome of 1979-1980 pre-project activities being funded from other GOP and USAID sources.

E. Financial Arrangements

A summary project financial plan is presented in Attachments 1 through 4 of this Annex.

Regarding loan disbursements, the Fixed Amount Reimbursement (FAR) procedure will be utilized for loan financing of local costs. The terms and conditions of the FARA(s) will be agreed upon by the Parties to this Agreement. Irrigation system operation and maintenance equipment financed by AID is programmed for off-shore procurement.

Bicol IAD-III (Rinconada-Buhi/Lalo) Project
Estimated Project Cost, Annual Values: Project Total From All Funding Sources
(1000 pesos)

	<u>Project Component</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
I	Lake Buhi Water Source Development	(375) ^{1/}	10172	9239				19411
II	Lalo Irrigation Construction		4295	12094				16389
III	PMO for Irrigation & Agr. Support	7357	3461	2720	2840	1823	408	18609
IV	Agre-forestation/Watershed Dev.		974	1089	1265	1459	1165	5952
	SUB-TOTAL	7357	18902	25142	4105	3282	1573	60361
	15% Contingency	1104	2835	3771	616	492	236	9054
	PROJECT TOTAL	8461	21737	28913	4721	3774	1809	69415

NOTE: 1978 base year cost estimates used in the Bicol IAD-III (Rinconada-Buhi/Lalo) Project Paper were escalated by 17% to derive project costs in 1979 prices which reflect unusual increases in petroleum products and concrete. From these 1979 estimates, local currency costs and imported equipments costs were escalated by compound rates of 7% and 15% per year, respectively.

^{1/} Up to \$50,000 from the Bicol Integrated Rural Development Grant Project (USAID 492-0303) will provide for 6 man-months of engineering design consultant services required for the design of the control structure at Lake Buhi.

Bicol IAD-III (Rinconada-Buhi/Lalo) Project
Estimated Project Cost, Annual Values by Funding Source: AID Loan
(1000 dollars)^{1/}

	<u>Project Component</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
I	Lake Buhi Water Source Development		943	857				1800
II	Lalo Irrigation Construction		387	1088				1475
III	PMO for Irrigation & Agr. Support	463	61	15	17	18	50	624
IV	Agro-forestation/Watershed Dev.		63	87	103	120	76	449
	SUB-TOTAL	463	1454	2047	120	138	126	4348
	15% Contingency	69	218	307	18	21	19	652
	PROJECT TOTAL ^{2/}	532	1672	2354	138	159	145	5000

NOTE: 1978 base-year cost estimates used in the Bicol IAD-III (Rinconada-Buhi/Lalo) Project Paper were escalated by 17% to derive project costs in 1979 prices which reflect unusual increased in petroleum products and concrete. From these 1979 estimates, local currency costs and imported equipments costs were escalated by compound rates of 7% and 15% per year, respectively.

^{1/} ₱7.5 = \$1

^{2/} Except for use of the Contingency Fund as needed, 10% out, 15% in adjustments between line item total amount is permitted without the written modification of this schedule.

Bicol IAD-III (Rinconada-Buhi/Lalo) Project
Estimated Project Cost, Annual Values by Funding Source: GOP Unreimburseable Contribution
(1000 pesos)

	<u>Project Component</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
I	Lake Buhi Water Source Development		3099	2812				5911
II	Lalo Irrigation Construction		1392	3934				5326
III	PMO for Irrigation & Agr. Support	3881	3004	2608	2712	1688	33	13926
IV	Agro-forestation/Watershed Dev.		502	436	492	559	595	2584
	SUB-TOTAL	3881	7997	9790	3204	2247	628	27747
	15% Contingency	583	1201	1469	482	338	95	4168
	PROJECT TOTAL	4464	9198	11259	3686	2585	723	31915

NOTE: 1978 base-year estimates used in the Bicol IAD-III (Rinconada-Buhi/Lalo) Project Paper were escalated by 17% to derive project costs in 1979 prices which reflect unusual increases in petroleum products and concrete. From these 1979 estimates, local currency costs and imported equipments costs were escalated by compound rates of 7% and 15% per year, respectively.

Bicol IAD-III (Rinconada-Buhi/Lalo) Project
Estimated Annual Values: GOP Budgetary Requirement
(1000 pesos)

	<u>Project Component</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
I	Lake Buhi Water Source Development		10172	9239				19411
II	Lalo Irrigation Construction		4295	12094				16389
III	PMO for Irrigation & Agr. Support	4083	3461	2720	2840	1823	408	15335
IV	Agro-forestation/Watershed Dev.		974	1089	1265	1459	1165	5952
	SUB-TOTAL	4083	18902	25142	4105	3282	1573	57087
	15% Contingency	612	2835	3771	616	492	236	8562
	PROJECT TOTAL	4695	21737	28913	4721	3774	1809	65649

NOTE: 1978 base-year cost estimates used in the Bicol IAD-III (Rinconada-Buhi/Lalo) Project Paper were escalated by 17% to derive project costs in 1979 prices which reflect unusual increases in petroleum products and concrete. From these 1979 estimates, local currency costs and imported equipments costs were escalated by compound rates of 7% and 15% per year, respectively.

ANNEX II - PROJECT LOAN STANDARD

PROVISIONS ANNEX

Definitions: As used in this Annex, the "Agreement" refers to the Project Loan Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters.

To assist Borrower in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex I.

Article B: General Covenants.

Section B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations

under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

Section B.2. Execution of Project. The Borrower will:

(a) Carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

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

Section B.3. Utilization of Goods and Services.

(a) Any resources financed under the Loan will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Loan, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

Section B.4. Taxation.

(a) This Agreement and the Loan will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of the Borrower.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Loan, and any property or transactions relating to such contracts; and (2) any commodity procurement transaction financed under the Loan are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in the territory of the Borrower, the Borrower will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Loan.

Section B.5. Reports, Records, Inspections, Audit. The Borrower will:

(a) Furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Loan. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective

suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

(c) Afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services, financed by such Party, and books, records, and other documents relating to the Project and the Loan.

Section B.6. Completeness of Information. The Borrower confirms:

(a) That the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Loan, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement; 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. Borrower affirms that no payments have been or will be received by any official of the Borrower in connection with the procurement of goods or services financed under the Loan except fees, taxes, or similar payments legally established in the country of the Borrower.

Section B.8. Information and Marking. The Borrower will give appropriate publicity to the Loan and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions.

Section C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of the Borrower will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

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

Section C.2. Eligibility Date. No goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

Section C.3. Plan, Specifications and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

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

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Loan, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation; and

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(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed under the Loan, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a)(2) will be identified in Project Implementation Letters.

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Loan, will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Loan for engineering and other professional services, for construction services, and for such other services, equipment, or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used by the Borrower for the Project but not financed under the Loan, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Borrower for the Project but not financed under the Loan shall be acceptable to A.I.D.

Section C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Loan. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

Section C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Loan, the Borrower will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

Section C.6. Shipping.

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

(1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment; or .

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

(3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Loan, if such goods or persons are carried:

(1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or

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

(3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels:

(1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels; and

(2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Borrower on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to any cargo transported from U.S. ports and also any cargo transported from non-U.S. ports, computed separately.

Section C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Borrower may be financed as a Foreign Exchange Cost under this Agreement provided:

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

(2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Borrower (or government of 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 territory of the Borrower financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Borrower will insure, or cause to be insured, goods financed under the Loan imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Borrower under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Borrower for the replacement or

repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

Section C.8. U.S. Government-Owned Excess Property. The Borrower agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Loan, should be utilized. Funds under the Loan may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

Section D.1. Cancellation by Borrower. The Borrower may, by giving A.I.D. 30 days written notice, cancel any part of the Loan which has not been disbursed or committed for disbursement to third parties.

Section D.2. Events of Default; Acceleration. It will be an "Event of Default" if Borrower shall have failed:

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

(b) To comply with any other provisions of this Agreement; or

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

If an Event of Default shall have occurred, then A.I.D. may give the Borrower notice that all or any part of the unpaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:

- (1) such unrepaid Principal and accrued interest hereunder will be due and payable immediately; and
- (2) the amount of any further disbursements made pursuant to then outstanding commitments to third parties or otherwise will become due and payable as soon as made.

Section D.3. Suspension. If at any time:

- (a) An Event of Default has occurred; or
- (b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower will be able to perform its obligations under this Agreement; or
- (c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or
- (d) The Borrower shall have failed to pay when due any interest, installment of principal or other payment required under any other loan, guaranty, or other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies;

Then A.I.D. may:

- (1) suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the Borrower;

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

(3) at A.I.D.'s expense, direct that title to goods financed under the Loan be transferred to A.I.D. if the goods are from a source outside Borrower's country, are in a deliverable state and have not been off-loaded in ports of entry of Borrower's country. Any disbursement made under the Loan with respect to such transferred goods will be deducted from Principal.

Section D.4. Cancellation by A.I.D. If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Loan that is not then disbursed or irrevocably committed to third parties.

Section D.5. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursements, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder.

Section D.6. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Borrower to refund the amount of such disbursements in United States Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

The right to require such a refund of a disbursement will continue, notwithstanding any other provisions of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

(b)

(1) any refund under the preceding subsection, or

(2) any refund to A.I.D. from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Loan, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will:

A. be made available first for the cost of goods and services required for the Project, to the extent Justified; and

B. the remainder, if any, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan reduced by the amount of such remainder.

Section D.7. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.