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Program Agreement Number: 538-0141

GRANT AGREEMENT

BETWEEN

GOVERNMENT OF GRENADA

AND THE

GOVERNMENT OF THE UNITED STATES OF AMERICA

ACTING THROUGH THE

AGENCY FOR INTERNATIONAL DEVELOPMENT

FOR

ECONOMIC STRUCTURAL ADJUSTMENT PROGRAM II

Dated: July 21, 1987

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GRANT AGREEMENT
BETWEEN
GOVERNMENT OF GRENADA
AND THE
GOVERNMENT OF THE UNITED STATES OF AMERICA
FOR
ECONOMIC STRUCTURAL ADJUSTMENT PROGRAM II

AGREEMENT, dated the 21st of July, 1987, between the Government of the Commonwealth of Grenada ("Grantee") and the United States of America acting through the Agency for International Development ("A.I.D."), together referred to as the "Parties".

Whereas, the Government of the United States, acting through A.I.D., desires to assist the Government of Grenada to achieve economic structural adjustment ends;

Now, therefore, the Parties hereto agree to as follows:

Article I. The Assistance

SECTION 1.1. The Grant

A.I.D. agrees to grant to the Grantee, under the terms of this Agreement, not to exceed Five Million United States Dollars (US\$5,000,000) (the "Grant") to assist the Government of Grenada in attaining structural adjustment goals. The Grant will provide a more secure basis for undertaking structural economic reform in Grenada. The Grant will also provide for the establishment of a trust fund special account for the operational expenses of administering the U.S. economic assistance program in Grenada. The total grant program calls for disbursement in three tranches subject to the conditions precedent set forth below. The activities contemplated herein are amplified in the Program Description set forth at Annex I.

Article II. Conditions Precedent to Disbursement

SECTION 2.1. Conditions Precedent to Initial Disbursement

Prior to the first tranche of \$1,200,000 under this Grant or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee 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 from the Chief Legal Officer of the Grantee stating that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

(b) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each person certified as to its authenticity;

(c) Evidence that the Grantee has established an account into which the U.S. dollar proceeds of the Grant can be disbursed;

(d) Evidence that (1) a special and separate local currency account has been established in Grenada into which the E.C. dollar equivalent of the Grant will be deposited, and (2) the Grantee is committed to use the deposited local currencies for uses in accordance with the provisions of Annex I - Program Description;

(e) A commitment that the Grantee will deposit into the special account, immediately upon disbursement of each tranche of the Grant proceeds, an amount in local currency equivalent to the dollar disbursement under the Grant; and

(f) A mutually agreed upon list of Government of Grenada budget line items, on which funds from the special account will be expended as funds are withdrawn under the conditions as set forth in Annex I to this Agreement.

(g) A mutually agreed upon plan which identifies a program to close the fiscal gap for the 1987 budget as outlined in Annex II to this Agreement.

SECTION 2.2. Conditions Precedent to Disbursement of Second Tranche

Prior to the disbursement of the second tranche of \$1,800,000, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee 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) A Letter of Intent that commits the Grantee to undertake a medium-term structural adjustment program, as described in a policy framework paper attached to that Letter;

(b) Evidence that the GOG has not exceeded cumulative 1987 monthly expenditures on Direct and Indirect Personnel Emoluments, as set forth in Annex II to this Agreement, as of the month preceding this disbursement; and

(c) Evidence that the GOG has not exceeded cumulative 1987 monthly recurrent expenditures (defined, for purposes of this Condition Precedent, as total expenditures less capital formation outlays and less payments on debt principal and less redundancy payments), as set forth in Annex II to this Agreement, as of the month preceding this disbursement.

SECTION 2.3. Conditions Precedent to Disbursement of Third Tranche

Prior to the disbursement of the third tranche of \$2,000,000, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, and, subject to availability of Funds in accordance with Section 1.2, the Grantee 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) evidence that the funds disbursed into the special account under the first tranche of this program have been fully liquidated, in keeping with the purposes of this program, as set forth in Annex I, Program Description;

(b) evidence that conditions precedent to the second tranche have been met;

(c) Evidence that the GOG has not exceeded cumulative 1987 monthly expenditures on Direct and Indirect Personnel Emoluments, as set forth in Annex II to this Agreement, as of the month preceding this disbursement;

(d) Evidence that the GOG has not exceeded cumulative 1987 monthly recurrent expenditures (defined, for purposes of this Condition Precedent, as total expenditures less capital formation outlays and less payments on debt principal and less redundancy payments), as set forth in Annex II to this Agreement, as of the month preceding this disbursement; and

(e) Evidence that the GOG is closing the fiscal gap for 1987, as set forth in Annex II to this Agreement.

SECTION 2.4. Notification

When A.I.D. has determined that the conditions precedent to disbursement specified in Section 2.1., 2.2. and 2.3. have been met, it will promptly notify the Grantee.

SECTION 2.5. Terminal Date for Conditions Precedent

If the conditions precedent set forth in Section 2.1., 2.2. and 2.3. have not been met within a reasonable time from the date of this Agreement, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

Article III. Disbursement

SECTION 3.1. Deposit of Disbursed Funds

After satisfaction of the applicable conditions precedent, at the written request of the Grantee, A.I.D. will deposit the proceeds of the Grant in the designated U.S. correspondent bank.

SECTION 3.2. Date of Disbursement

Disbursement by A.I.D. will be deemed to occur on the date(s) the proceeds of the Grant are deposited in the bank or banks designated pursuant to Section 3.1.

SECTION 3.3. Terminal Date for Use of Special Account Funds

Except as A.I.D. may otherwise agree in writing, the terminal date for use of the Grant proceeds deposited in the special account shall be June 30, 1988.

Article IV. Purposes of Funds

SECTION 4.1.

The Grantee agrees that the Grant funds will be used for purposes set forth in Article I and will not be used for (i) financing military requirements of any kind, including the procurement of commodities or services for military purposes, or (ii) luxury items or pesticides which are not registered by the U.S. Environmental Protection Agency without restriction.

Article V. Covenants

SECTION 5.1. Records

The Grantee will maintain financial records, in accordance with generally accepted accounting principles, to assure compliance with this Agreement, such records to be maintained for at least three years after the date of last disbursement hereunder and to be made available upon request for examination at any reasonable time by authorized representatives of A.I.D.

SECTION 5.2. Local Currency Special Account

The Grantee, using the highest lawful rate of exchange existing on the date of the local currency deposit, will immediately upon disbursement of the Grant cause the East Caribbean Central Bank to deposit the local currency into the previously established special and separate account, the equivalent amount of the Grant proceeds, which special account shall, except as A.I.D. may otherwise agree in writing, be established and used by the Government of Grenada as specified by the terms and conditions of the Grant Agreement.

SECTION 5.3. Miscellaneous Financial and Program Covenants

Except as A.I.D. may otherwise agree in writing, the Grantee covenants that:

(a) it will provide A.I.D. on a monthly basis with a detailed cash flow analysis of the Grantee's finances, current to date and including projections for the balance of the fiscal year, within four weeks of the end of the month on which the cash flow analysis is reporting;

(b) it will not exceed the total expenditures on Direct and Indirect Personnel Emoluments, or the total recurrent expenditures (defined, for purposes of this Covenant, as total expenditures less capital formation outlays and less payments on debt principal and less redundancy payments), as set forth in Annex II to this Agreement, as of end of calendar year 1987; and

(c) it will in preparing its 1988 budget estimates endeavor to set a level of expenditures on Direct and Indirect Personnel Emoluments that fully captures the savings inherent in the retrenchment program planned for CY 1987/88, using the approach set forth in Annex II to this Agreement;

(d) it will carry out the civil service retrenchment program, as set forth in Annex II to this Agreement;

(e) it will close the fiscal gap for 1987 as set forth in Annex II to this Agreement; and

(f) all local currency expenditures detailed in Section 2.1(f) of the Grant Agreement or as subsequently amended will have been carried out by June 1987.

SECTION 5.4. Imports from the United States

The Grantee covenants to import from the United States during the twelve month period after execution of the Agreement goods and services in an amount at least equal to Five Million United States Dollars, excluding those goods to which an attribution is made under any predecessor program assistance grants. Documentation evidencing such imports shall be maintained in form and substance satisfactory to A.I.D. by the Grantee and shall be made available in accordance with Section 5.1. hereof.

SECTION 5.5. Reports

The Grantee, unless A.I.D. agrees otherwise in writing, will furnish to A.I.D. periodic reports on the status of the funds, and the use thereof, of the local currency equivalent of the U.S. Dollar proceeds in a format acceptable to A.I.D. The first report will be due three months after initial disbursement with the final report due one month after the final disbursement of United States dollars.

SECTION 5.6. Publicity

The Grantee covenants that it will give appropriate publicity to the grant and activities funded thereunder as a program to which the United States has contributed.

SECTION 5.7. Consultation

The Grantee covenants to meet at regular intervals with A.I.D. in order to consult concerning the effectiveness of the activities undertaken through the Agreement and to monitor progress on economic policy matters generally.

SECTION 5.8. Execution of Program

(a) The Grantee shall carry out the program 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 herein, 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 program, and, as applicable for continuing activities, cause the program to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the program.

Article VI. Refunds

(a) In the case of any disbursement, or release of funds from the special account, which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement or release in U.S. dollars to A.I.D. within sixty (60) days after receipt of a request therefor;

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that the Grant is not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement in U.S. dollars to A.I.D. within sixty days after receipt of a request therefor.

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

Article VII. Miscellaneous

SECTION 7.1. Communications

The Grantee undertakes to provide to A.I.D. such information relating to the economic and financial situation of Grenada as may be necessary. Any notice, request, documents, 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 Grantee: Minister of Finance

 Mail Address: Ministry of Finance
 St. George's, Grenada

 Cable Address: 3418-GA

To A.I.D.: Director, Regional Development
 Office/Caribbean

 Mail Address: P.O. Box 302, U.S. Embassy
 Bridgetown, Barbados

 Cable Address: 2259 USEMB BGI WB

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.

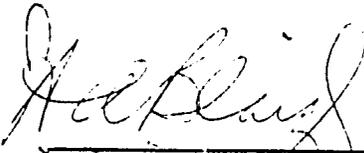
SECTION 7.2. Representatives

For all purposes relevant to this Agreement, the Grantee will be represented by the individuals holding or acting in the position of Minister of Finance or Director General of Finance, Government of Grenada and A.I.D. will be represented by the individual holding or acting in the position of the RDO/C Director in Barbados each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized an instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

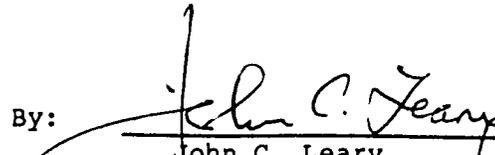
IN WITNESS WHEREOF, the Government of Grenada and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the date and year first above written.

GOVERNMENT OF GRENADA

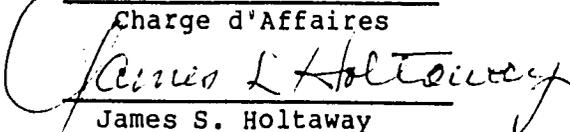
UNITED STATES OF AMERICA

By: 
Herbert A. Blaize

Title: _____
Prime Minister

By: 
John C. Leary

Title: _____
Charge d'Affaires

By: 
James S. Holtaway

Title: _____
Director
RDO/C

TRUST FUND AGREEMENT

between the

GOVERNMENT OF GRENADA

and the

UNITED STATES OF AMERICA

Whereas, the Agency for International Development (A.I.D.) on behalf of the United States of America and the Government of Grenada (The "Parties") on July 21, 1987 have entered into Economic Structural Adjustment Program II with the Government of Grenada in the General Agreement for Economic, Technical and Related Assistance signed with the United States of America on May 7, 1984 have agreed to contribute fully within the limits of its resources and general economic conditions to its development program; and

Whereas, the Agency for International Development in the course of administering an economic assistance program in Grenada will incur substantial operational costs;

Now, Therefore, the Parties agree as follows:

In accordance with the provisions of the Economic Structural Adjustment Program II Agreement, local currency funds in the equivalent amount of US\$200,000 shall be deposited by the Government of Grenada into a special Trust Fund account at the direction of and in accordance with instructions issued by A.I.D., such instructions to take into account the status of disbursement under the tranche method of disbursement.

Disbursements from the Trust Fund may be made on behalf of the Government of Grenada by A.I.D. exclusively for operating expenses of the A.I.D. program in Grenada.

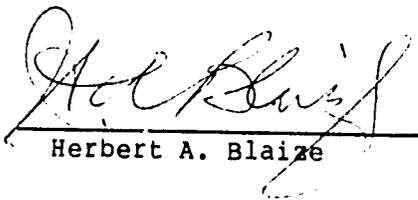
A.I.D. shall maintain records and provide the Government of Grenada with an annual accounting of the uses made of the funds so deposited and, at any other interval agreed upon by the Government of Grenada.

Interest earnings, if any, on funds held in trust pursuant to this Agreement shall be added to the Trust Fund. Any balance remaining in the Trust Fund upon termination of this Agreement or of the U.S. economic assistance program in Grenada, whichever is later, shall be returned to the Government of Grenada.

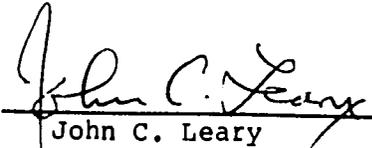
In witness whereof, the Parties, acting through their respective duly authorized representatives, have caused this Trust Fund Agreement to be signed in their names as delivered as of the day and date first above written.

GOVERNMENT OF GRENADA

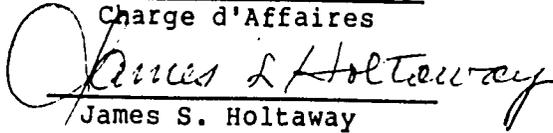
UNITED STATES OF AMERICA

By: 
Herbert A. Blaize

Title: _____
Prime Minister

By: 
John C. Leary

Title: _____
Charge d'Affaires

By: 
James S. Holtaway

Title: _____
Director
RDO/C

PROGRAM DESCRIPTION

The Program

The Economic Structural Adjustment Program II (ESAP II) consists of the incremental disbursement of an estimated US\$5,000,000 to the Government of Grenada (GOG). The grant proceeds will be deposited in the Eastern Caribbean Central Bank (ECCB) for the account of the GOG. The ECCB, immediately upon receipt of the dollar proceeds, will transfer the local currency equivalent of the dollar amount made available under the Grant into an appropriate special GOG local currency account to be maintained in a commercial bank in Grenada.

The major purpose of this Grant is to enable the GOG to carry out various programs which will lead directly to reduced recurrent spending in 1988 and beyond. If the GOG is successful in carrying out these programs, it is expected that by the end of 1987 Grenada will be engaged in a multidonor-funded structural adjustment program for the 1987-90 period, under the "tighter consultative group" (TCG) mechanism. For example, the GOG has initiated a civil service "retrenchment" program which is expected to produce a one-time twenty-percent reduction in the wage bill. However, the initial costs of such a retrenchment program, in terms of redundancy payments mandated by Grenadian law, will be high, and the savings in the retrenchment program will not fully accrue to the Government until 1988. This Grant is intended to assist the GOG in this endeavor, primarily by covering non-retrenchment budgetary costs, thus freeing up GOG resources for retrenchment requirements.

In ESAP I, the GOG agreed that any future budgetary assistance from A.I.D. to the GOG would be "provided only in connection with development of a medium-term structural adjustment program in the framework of the TCG mechanism," and that it was anticipated that such a program would be in place in calendar year 1987. The current timing for development of this TCG program is that (a) considerable analysis by and discussion between the donors and the GOG has already occurred, (b) the GOG will negotiate in August with the multilateral donors on the contents of a "policy framework paper" (PFP) to guide the proposed TCG program, and (c) the GOG will submit in August or September a Letter of Intent to not only the multilateral donors but to A.I.D., as well, signifying GOG commitment to the program set out in the PFP and agreed to by the donors at the staff level.

It is anticipated that the first tranche of the program assistance (US\$1.2 million) will be provided nearly immediately after the Grant Agreement is signed. The funds will be deposited in a special account for GOG use in covering agreed-upon budgetary expenses, on which the GOG must maintain appropriate documentation. The GOG agrees that funds deposited into the special account from this tranche will be released only to the extent that comparable funds have been expended on severance payments associated with the

retrenchment program. The second tranche (US\$1.8 million) will be disbursed when the GOG has presented A.I.D. with a letter of intent on a medium-term structural adjustment program, and this is expected to occur in August or September. For the funds disbursed under this tranche, unlike those for the first and third tranches, there will be no requirement that funds released from the special account be matched by a comparable amount of retrenchment expenditures. The third tranche (US\$2.0 million) is scheduled for November, and will be disbursed if (a) the second tranche has been disbursed, (b) the GOG's expenditures to date on retrenchment severance payments amount to more than the equivalent of US\$1.0 million, (c) the GOG has met performance targets, and (d) the GOG provides evidence that it is closing the fiscal gap as described in Annex II. Upon deposit into the special account, the GOG will be expected to use the funds for the agreed-upon uses and will be expected to draw on the funds from this tranche (as is the case for the first tranche) only to the extent that a comparable amount of retrenchment expenditures have been made.

A. Support of Central Government Budget:

The local currency equivalent of US\$4,800,000 will be used to support the recurrent budget and the public sector investment program of Grenada in order to enable the Government of Grenada to enter into a comprehensive, medium-term structural adjustment program under the "tighter consultative group" mechanism. Specific uses of this local currency equivalent will be agreed upon jointly prior to the first disbursement.

B. Trust Fund:

From the local currencies deposited by the Grantee into a separate local currency account as a result of compliance with the Program Description and Section 2 the Grantee shall deposit local currency into a special Trust Fund account in accordance with the provisions of a separate Trust Fund Agreement, executed this date, between A.I.D. and the Government of Grenada.

Such deposit shall be made in accordance with instructions from A.I.D. and shall be made in accordance with the following schedule:

- " - Deposit of US\$200,000 equivalent upon disbursement by A.I.D. of first tranche.

The Trust Fund shall be used as set forth in the separate Trust Fund Agreement referred to above.

PROGRAM TARGETS

A. The purpose of this Annex is to establish the program targets which are referred to in Sections 2.1., 2.2., and 2.3., and in Section 5.3 of the Grant Agreement.

B. The following table contains mutually agreed targets for recurrent expenditures and for the subset of those expenditures which relate to personnel payments, by quarter (EC\$000):

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>1987</u>
RECURRENT EXPENDITURE	24.537	29.653	35.650	28.160	118.000
Personnel	13.737	14.405	24.327	16.244	68.713

The recurrent expenditure targets in the above table are exclusive of principal and redundancy payments, and are on an accrual basis. The subset of recurrent expenditure which is denoted as "Personnel" is the sum of direct and indirect personnel emoluments.

C. The following calculations, based on GOG budget estimates for 1987, indicate the level of total expenditures on Direct and Indirect Personnel Emoluments that both Parties to this Agreement understand will form the basis for establishing total expenditures on Direct and Indirect Personnel Emoluments on an annualized basis once the retrenchment program is completed in 1988.

CALCULATION METHOD:

- Step 1. From total 1987 personnel expenditure in Section B, above, SUBTRACT EC\$11.9 million, the projected annual savings resulting from civil service retrenchment which will occur in 1988.

- Step 2. From the result of Step 1, SUBTRACT EC\$4.5 million, the amount of the proposed 1987 civil service wage settlement that covers 1985 and 1986.

- Result EC\$52.313 million.

Both Parties further understand that reclassification of existing Central Government budget Programmes resulting in the removal of any such Programmes from the Central Government will lower this level accordingly.

D. The GOG agrees to carry out during 1987 a civil service retrenchment program according to the following plan, with the following implications with respect to recurrent expenditures:

TOTAL CIVIL SERVICE SECTOR RETRENCHMENT BY MONTH

Month	Total Number Employees	Approximate Annual Savings (EC\$)	Approximate Redundancy Payments (EC\$)
May/Sept 1987	177	1,239,000	909,000
Oct 1987	168	1,176,000	920,000
Nov 1987	168	1,176,000	920,000
Dec 1987	169	1,183,000	920,000
Jan 1988	171	1,197,000	977,143
Feb 1988	171	1,197,000	977,143
Mar 1988	171	1,197,000	977,143
Apr 1988	171	1,197,000	977,143
May 1988	221	1,547,000	1,262,857
June 1988	<u>213</u>	<u>1,491,000</u>	<u>1,217,143</u>
TOTALS	1,800	12,600,000	10,000,000

E. The GOG agrees to the following program to close the fiscal gap for the 1987 budget (EC\$):

EC\$

RECURRENT REVENUES
 RECURRENT EXPENDITURES
 RECURRENT BALANCE
 CAPITAL EXPENDITURES
 CAPITAL GRANTS AND CONCESSIONARY LOANS
 PRINCIPAL REPAYMENTS ON DEBT
 OVERALL BALANCE BEFORE BORROWING
 FINANCING
 DOMESTIC BORROWING
 BUDGETARY GRANTS
 UNFINANCED GAP

CLOSING THE UNFINANCED GAP:
 REVENUE ENHANCEMENT
 EXPENDITURE REDUCTION

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