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AID/W

Loan and Grant Agreements

FM/LMD (if Loan)  
FM/PAFD  
FM/CAD  
GC/ANE  
ANE/Desk  
ANE/TR Officer  
ANE/PD Officer & File  
YPC/CDIE/DI

A. I. D. PROJECT NO. 497-0357

AMENDMENT NO. 2  
PROGRAM GRANT AGREEMENT  
BETWEEN THE  
REPUBLIC OF INDONESIA  
AND THE  
UNITED STATES OF AMERICA  
FOR THE  
AGRICULTURE AND RURAL SECTOR SUPPORT PROGRAM

DATED: 9/1/89

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Dated: 9/1/89

This AMENDMENT NO. 2 is entered into between the REPUBLIC OF INDONESIA ("Grantee") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

WHEREAS, the Grantee and A.I.D. entered into a Program Grant Agreement for the Agricultural and Rural Sector Support Program on August 31, 1987, as amended on September 28, 1987 ("Grant Agreement"), whereby A.I.D. agreed to grant to the Grantee up to Forty Three Million United States Dollars (\$43,000,000); and

WHEREAS, the Parties have decided to provide additional funding for and to extend the Program for an additional two years;

NOW, THEREFORE, the Grantee and A.I.D. hereby agree as follows:

1. The first paragraph of Section 2.1 is revised to read as follows:

"SECTION 2.1. Definition of Program. The Program will provide technical assistance and budget support to assist the Grantee to increase rural employment opportunities and incomes through agricultural diversification, agricultural trade, domestic resource mobilization, financial deregulation, and improved environmental and natural resource management. Grant funds will assist the Grantee in pursuing policies and maintaining budget levels in areas of particular importance to successful agricultural and rural development efforts. Annex 1, attached, amplifies the above definition of the Program."

2. In the last sentence of Section 2.2(b), change "\$43,000,000" to read "\$63,000,000".

3. Section 3.1. The Grant, is amended in its entirety to read as follows:

"SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Program, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant to the Grantee under the terms of this Agreement not to exceed Sixty One Million Three Hundred Thousand United States ("U.S.") Dollars (\$61,300,000) ("Grant").

The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services procured under the technical assistance component of the Program; and to finance local currency budget support provided under the Program."

4. Section 3.2, Grantee Resources for the Program, is amended by changing "\$22,815,000" to read "\$27,815,000".

5. Section 3.3, Program Assistance Completion Date, is deleted in its entirety, substituting therefor the following:

"SECTION 3.3. Program Assistance Completion Date.

(a) The "Program Assistance Completion Date" (PACD), which is December 31, 1992, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all goods and services financed under the Grant will have been furnished and the period for which budget support will be provided under the Grant will have come to an end.

(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 Grant for goods or services provided

subsequent to the PACD or for budget support for any period of time subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Program Implementation Letters are to be received by A.I.D. 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 Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Program Implementation Letters, were not received before the expiration of said period.

(d) Any Grant funds which have been disbursed to the Grantee for budget support which have not been committed by the Grantee for such purposes prior to the PACD or which, if so committed by the Grantee, have not been disbursed from the special account and expended for such purposes by the date specified in subsection (c) above, shall, unless otherwise agreed by A.I.D. in writing, be refunded to A.I.D. in rupiah."

6. Section 4.2, Disbursement for Budget Support, is amended by adding at the end thereof a new subsection (c) reading as follows:

"(c) for IFY 1990/91 and IFY 1991/92, budget plans for the relevant ministries of the Government of Indonesia which are to receive budget support under the Program in those fiscal years together with the projected needs per quarter for the fiscal year covered by the disbursement request."

7. In Section 4.3, Notification, change "condition precedent specified in Section 4.1 has" to read "conditions precedent specified in Sections 4.1 and 4.2 have".

8. Section 5.2. Additional Special Covenants, is revised as follows:

A. In subsection (c)(1)(A), change "Rupiah advanced by A.I.D." to read "Rupiah disbursed by A.I.D.".

B. Subsection (d), Comprehensive Policy Agenda, is revised in its entirety to read as follows:

"(d) Comprehensive Policy Agenda. The Grantee agrees that it shall diligently pursue the comprehensive policy agendas which have been included in annexes to this Agreement."

9. Section 6.1, Foreign Exchange Costs, is revised by adding after "Disbursements pursuant to Section 7.1" the words "to finance the procurement of goods and services under the technical assistance component of the Program".

10. Section 6.2, Local Currency Costs, is amended in its entirety to read as follows:

"SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 to finance the procurement of goods and services under the technical assistance component of the Program will be used exclusively to finance the costs of goods and services required for the Program having their source and, except as A.I.D. may otherwise agree in writing, their origin in Indonesia."

11. Section 7.2, Disbursement for Local Currency Costs, is revised in its entirety to read:

"SECTION 7.2. Local Currency Disbursement. After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds for the local currency requirements of the Program in the following ways:

(a) Budget Support. Upon request by the Grantee, local currency funds will be obtained by A.I.D. and will be disbursed into a special account established by the Grantee. Such funds shall be maintained in the special account without comingling with any other funds. The Grantee may withdraw and utilize funds from the special account only for the purposes, and in accordance with procedures and documentation, as may be agreed upon in Annex 1 attached hereto, or as may be otherwise agreed upon in writing by the Parties.

(b) Procurement of Goods and Services under the Technical Assistance Component. The Grantee may obtain disbursements of funds under the Grant for the local costs of such procurement by submitting to A.I.D., with necessary supporting documentation as prescribed in Program Implementation Letters, requests to finance such costs. The local currency needed for such disbursements may be obtained by acquisition by A.I.D. with U.S. Dollars by purchase.

The U.S. Dollar equivalent of the local currency made available under (a) and (b) above will be the amount of U.S. dollars required by A.I.D. to obtain the local currency."

12. Annex 1, Amplified Program Description, is deleted in its entirety, substituting therefor the Annex 1, Amplified Program Description (August 1989), set forth in Attachment 1 to this amendment, except that the second paragraph of Section I.B. and

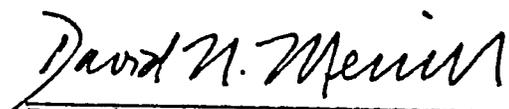
Section II of the original Amplified Program Description first annexed to the Grant Agreement shall remain in full force and effect with respect to financing heretofore provided under the Agreement.

13. Annex 2, Program Grant Standard Provisions Annex, is deleted in its entirety, substituting therefor the revised Annex 2, Program Grant Standard Provisions Annex, set forth in Attachment 2 to this amendment.

14. Except as amended herein, the Program Grant Agreement is unchanged and, as amended, remains in full force and effect.

IN WITNESS WHEREOF, the Republic of Indonesia and the United States of America, each acting through its duly authorized representative, have caused this Amendment No. 2 to be signed in their names and delivered as of the day and year first above written.

UNITED STATES OF AMERICA

  
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David N. Merrill  
Director  
USAID/Indonesia

REPUBLIC OF INDONESIA

  
\_\_\_\_\_  
Saleh Afiff  
Minister of National  
Development Planning  
Chairman of BAPPENAS

ANNEX 1

AMPLIFIED PROGRAM DESCRIPTION(AUGUST 1989)

I. Objectives

This Program is intended to provide support to the Government of Indonesia's efforts to increase rural employment opportunities and incomes in Indonesia through agricultural diversification, agricultural trade, domestic resource mobilization, financial deregulation, and improved environmental and natural resource management. Policy objectives of the Government of Indonesia(GOI) and the Program include: (1) to create the conditions conducive to expansion and diversification of the agricultural sector, including improvement of the environment for agricultural processing and trade; (2) to plan for and initiate the steps to expand and improve the efficiency of domestic financial markets; (3) to increase total investment in Indonesia, particularly off-Java, through accelerated implementation of financial deregulation; and (4) to sustain the economic productivity of the natural resource base through the development and implementation of sound environmental and natural resource management policies.

II. Program Components

The Program consists of three interrelated components---the policy agenda, budget support and technical assistance.

A. The Policy Agenda. The heart of the program is the policy agenda. Its formulation, negotiation and implementation yield the economic benefits to Indonesia expected from the Program. Success in the policy agenda component is made possible because of the commitment of the government to economic reform in general, and to the ARSSP policy concerns in particular.

The Program will establish a process and administrative framework to periodically review progress on agreed policy objectives culminating in an evaluation of progress before the end of the second and fourth years. While the pace of progress on policy objectives is difficult to predict, given the many variables that affect it, it is expected that commitment to the objectives will be maintained during the Program and that significant progress will be made by the end of the Program.

B. Budget Support. ARSSP provides resources to the budgets of elements of the government responsible for formulating, implementing and supporting the ARSSP policy agenda.

The budget support component of ARSSP is designed to meet several essential needs. The most important purpose is to insure that units and activities within the Government of Indonesia responsible for formulating or

implementing ARSSP policy objectives receive adequate funding to effectively carry out their work.

Budget support is also intended to augment the resources of units whose work has become more essential for sectoral growth and improved efficiency because of the new policy environment. For example, the elimination of the pesticide subsidy has created the prerequisite policy environment for successful implementation of an Integrated Pest Management program. ARSSP budget support to government agencies implementing such activities helps to insure that that program is adequately developed to meet the need created by the policy reform.

The third purpose of budget support is to maintain the attention of ARSSP managers in USAID and the GOI on the policy agenda. The process of negotiating the allocation of budget support focuses attention on the relationship between policy priorities and budget priorities. The actual provision of budget support helps realign budget priorities in support of the policy agenda during a time when the government of Indonesia has very limited flexibility in the use of its own resources because of the unavoidable demands of the routine budget.

C. Technical Assistance. The technical assistance component is distinguished from the budget support component by its projectized approach to assistance. AID and the GOI have agreed to projectize the technical assistance component because its activities relate directly to the provision of essential inputs needed for ARSSP development, management and oversight.

The technical assistance component of the ARSSP responds to several distinct needs. The process of policy change requires substantial investments in ex ante studies and analyses to ensure that decisions are based on a sound understanding of the economic issues. Also, as policy reforms are put into place, ex post analyses of their economic impacts provide important feedback as a guide to further actions. The technical assistance component will fulfill this need through the financing of technical advisory services, studies, analyses, and other types of technical assistance which will enhance the GOI's ability to conduct essential program analyses and evaluation. Examples of the technical studies to be carried out under this component are: follow-up analysis of the agriculture trade regime; an analysis of the effects of shipping deregulation; continuation of the development and application of ~~the~~ agricultural sector model; and an analysis of Bank Indonesia's open market operations.

Technical assistance will also be used to facilitate implementation of the policy agenda through support of special events such as seminars or workshops.

This component will also fund the ARSSP Program Manager, program evaluations and the financial monitoring of the budget support component by an independent accounting firm.

### III. Program Activities for IFY 1990/91 and IFY 1991/92

#### A. The Policy Agenda

The policy agenda for this period consists of five broad objectives, with sets of more specific sub-objectives for each as appropriate. These five objectives represent areas of policy concern that are consistent with the general guidelines of the Indonesian 5-year plan (Repelita V). They also represent areas of particular interest to USAID. Clarification or modifications of the items, relative priorities, and steps for carrying them out will be documented as necessary in Program Implementation Letters.

USAID and the government plan to carefully monitor the implementation of the policy agenda through a series of detailed benchmarks. These benchmarks will be finalized prior to the disbursement of funds under this amendment and will constitute the primary basis for USAID's quarterly and final evaluation of the ARSSP's policy achievements.

The following is a general presentation of the policy objectives and sub-objectives:

#### 1. Program objective and milestones for agricultural diversification.

Diversify agricultural production taking advantage of regional comparative advantage and promoting development of related agro-industries.

Sub-objectives:

1.1. Align agricultural policy instruments so that farmers receive appropriate market signals to capitalize on natural comparative advantage.

1.2. Implement the integrated pest management program in rice and extend it to include other crops.

1.3. Produce, distribute, and utilize fertilizers efficiently.

1.4. Broaden the national mandate of agricultural research centers to be more responsive to regional needs and introduce a system of direct outreach from research stations to regional extension centers and farmers.

1.5. Assess the implementation of the shipping deregulation reforms of November 1988.

1.6. Take advantage of new market opportunities in fruit crops by encouraging investment opportunities in small plantations.

#### 2. Program objective and milestones for agricultural trade.

Increase the efficiency and competitiveness of Indonesian international agricultural trade.

Sub-objectives:

2.1. Lower import tariffs and surcharges on selected imported agricultural products.

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2.2. Encourage higher quality plantation crops from both government plantations and small holders.

2.3. Establish a more effective relationship between trade associations and relevant government agencies to promote the export of Indonesian agricultural products.

3. Program objective and milestones for domestic resource mobilization.

Mobilize public resources and effectively apply them at regional and local levels.

Sub-objectives:

3.1. Continue to increase tax revenues through more effective and more equitable means. Accelerate the tax "post audits" program.

3.2. Periodically review new sources of revenue for local governments and discourage them from current "ad hoc" taxing practices.

3.3. Accelerate the program of private sector participation in providing public services.

3.4. Improve the effectiveness of resource transfer programs from the central government to the regions and local governments.

4. Program objective and milestones for implementation of financial deregulations.

Increase total investment in Indonesia, particularly off-Java, through accelerated implementation of financial deregulations to meet Repelita V targets, generate income growth and employment.

Sub-objectives:

4.1. Sustain financial deregulation efforts which impact on rural areas and the informal sector of the economy.

4.2. Improve climate for growth of foreign investment in Indonesia.

5. Program objective and milestones for environment and natural resources.

Develop appropriate policy approaches to assure that environmental and natural resources are managed wisely to sustain the economic development process.

Sub-objectives:

5.1. Strengthen the ability to systematically analyze agricultural policies and projects from the standpoint of their economic and ecological viability and sustainability.

5.2. Consolidate the authority and responsibility for pollution and hazardous waste control and monitoring within an appropriate system.

B. Budget Support. It is anticipated that AID will provide up to \$18.5 million in budget support over the period. This support will be allocated to selected units within the Ministry of Agriculture, Ministry of Finance, the Central Bureau of Statistics and the National Development Planning Agency. This budget support will be used to augment the development budgets of these units. Under the Ministry of Agriculture, ARSSP funds will continue to be used for budget support for the Office of the Secretary General because of the specific responsibility of this office for policy formulation. ARSSP funds may also be provided to support the Agency for Agricultural Research and Development, consistent with its budgetary needs. Funding will also be provided to the Ministry of Finance to support ARSSP policy agenda items 3 and 4. Specific allocations will be determined by mutual agreement between BAPPENAS and USAID prior to the start of each GOI fiscal year (April 1, 1990 and April 1, 1991).

C. Technical Assistance. It is anticipated that \$1.5 million in AID funding will be made available during this period for technical assistance activities (bringing the total to \$3.0 million budgeted for technical assistance over the entire program). These funds will be used to finance the costs of expert services and studies related to the design of policy reform packages and the assessment of their implementation. A portion of these funds will be reserved for program evaluation. Also, a portion will be reserved to obtain the services of an accounting firm to help monitor the budget support provided by ARSSP. Allocation of the remainder will be mutually agreed upon by the ARSSP Program Manager and BAPPENAS. The monitoring of this \$1.5 million in technical assistance will be in accordance with normal project financing procedures.

#### IV. Implementation Plan and Procedures

##### A. General

##### 1. Implementation Planning

The Implementation Workshop, to be held in October, 1989, will be used by ARSSP Program Management from USAID and the GOI to finalize all critical aspects of ARSSP Amendment planning, and to formally institute procedures for program implementation subsequent to the workshop.

##### 2. Responsibilities of the Parties

(a) USAID. Within USAID, day-to-day implementation of the program will be the responsibility of the ARSSP Program Manager, under the direction of the EPSO Office Chief and in collaboration with the technical office analysts from ARD, PSD and PPS.

(b) GOI. Within the GOI, day-to-day management will be the joint responsibility of the Chief of the Bureau of Agriculture and Irrigation and the Chief of the Bureau of Fiscal and Monetary Affairs in BAPPENAS. They and their staffs will liaise with other relevant offices in BAPPENAS, the Ministry of Finance, the Ministry of Agriculture and the Central Bureau of Statistics.

Organized GOI oversight of the ARSSP Program will take place as part of the regularly scheduled USAID/GOI semi-annual portfolio implementation review,

and will draw upon the results of USAID Project Implementation Reports as well as information derived from BAPPENAS internal sources.

Likewise, representatives of BAPPENAS and/or key technical ministries will work closely with USAID on the ARSSP evaluation. It is expected that reporting on the status and impact of the policy agenda, as well as assistance in overcoming potential implementation bottlenecks, can be carried out as required, following the joint USAID/GOI semi-annual review.

## B. Budget Support

1. Disbursement. Disbursements will be made quarterly on the basis of a request from the Director General for Budget, Ministry of Finance. The disbursements for each quarter will be released at the beginning of the quarter and will be approximately one-fourth of the total annual ARSSP budget contribution. If a recipient unit does not require all or a part of its planned quarterly disbursement, AID and BAPPENAS may agree to reprogram the funds to other entities in need of resources consistent with the ARSSP objectives. In this regard, ARSSP funds may be carried over in a recipient's budget to the next Indonesian fiscal year.

Disbursements for budget support will be made to a non-interest bearing special account in the Bank Indonesia. They will then be transferred to the budgets of the individual recipient unit.

## 2. Budget Support Monitoring

The principal responsibility for the management of ARSSP budget support resources rests with the recipient GOI ministries. USAID has initiated procedures for conducting a financial management capability review to establish the adequacy of the GOI's programming and budgetary systems, and the quality of the management, accounting and internal controls at Bank Indonesia, the Ministry of Agriculture, the Ministry of Finance, the National Development Planning Agency and the Central Bureau of Statistics. The financial management assessment will determine if (1) the recipient agencies are complying satisfactorily with all terms and conditions of the ARSSP Agreement and its Implementation Letters; (2) the GOI programming and budget systems provide satisfactory assurances that the mutually agreed upon objective of the program will be achieved; and (3) the accounting and internal control systems and procedures in place are adequate to ensure proper management, control and reporting of the receipt and use of all goods and services acquired with funds provided, and will reasonably prevent the use of funds for purposes identified in Implementation Letter No. 9 dated March 1, 1989. If the review reveals that GOI procedures are deficient then steps will be taken to correct the deficiencies.

USAID will monitor the disbursement of funds through review of quarterly financial reports which will be provided by the Directorate General for Budget, Ministry of Finance. The quarterly financial reports will provide cash flow information on the special account at Bank Indonesia and the ARSSP accounts in each implementing ministry. Included in these reports will be information for each unit's budget on amounts previously disbursed, amounts expended, and amounts to be disbursed in the present quarter. Furthermore,

the report will certify that no ARSSP funds were used for purposes disallowed by the terms of PIL No. 9.

In addition to the normal USAID review of the GOI quarterly financial reports, USAID will employ an independent accounting firm to review GOI records on a semi-annual basis. An important focus of this independent review will be to verify compliance with the terms of PIL No. 9. Should this independent assessment determine that funds were used for purposes disallowed by the terms of PIL No. 9, the GOI will redeposit the amounts so used to the ARSSP special account at Bank Indonesia. These funds may then be reprogrammed within the program for other needs consistent with the program's objectives.

C. Technical Assistance. Funds provided under the Program for technical assistance activities will be disbursed by direct payment from AID under AID direct contracts, except as may otherwise be agreed to in writing by AID and the GOI.

D. Overall Program Monitoring

Routine monitoring of the Program will focus on two different areas: monitoring of the policy agenda and financial monitoring. Results of routine tracking will be organized by the ARSSP Program Manager each quarter and will be used for semi-annual review by USAID and the GOI through their respective monitoring systems.

(a) Policy agenda monitoring will be a major substantive aspect of the everyday management of the program. The USAID ARSSP Program Manager will work closely with his counterpart in BAPPENAS and maintain a routine system of tracking of the policy agenda benchmarks. The exact nature of tracking and the allocation of detailed tracking responsibilities will be determined at the Implementation Workshop scheduled for October 1989. Approaches to tracking will include 1) special studies, 2) routinized monitoring by respective USAID and GOI technical offices, and 3) a comprehensive program evaluation (described below).

Representatives of the offices within USAID assigned monitoring responsibilities for particular policy objectives will meet at least semi-annually with representatives of the GOI involved with action on the policy agenda to ensure that progress is monitored and that both groups are fully aware of the status of the policy change process.

(b) Financial monitoring will be carried out through the review of quarterly statements produced by the Ministry of Finance Directorate General of Budget and through independent review every six months.

V. Evaluation

A. Program Activities During IFYs 1987/88 Through 1989/90. An evaluation of the Program for this period will be conducted with external assistance prior to the end of the period. The evaluation will (1) assess progress on the policy agenda benchmarks and determine whether additional future support of this nature is warranted; (2) assess the contribution this Program has made in advancing USAID's Country Development Strategy (CDSS) objectives with respect to selected development problem areas; and (3) assess the effectiveness and quality of the policy dialogue between the GOI and USAID.

B. Program Activities During IFY 1990/91 and IFY 1991/92. One external evaluation is planned to assess progress during this period as a basis to document results and determine the need and justification for any further sector assistance after the PACD. The evaluation will cover much the same ground as the previous evaluation of the Program, including progress on the policy agenda, performance of the budget support component, additional assistance needs, and proposed adjustments and improvements to the ARSSP process. Also, the evaluation should probe further into the impact of the reform agenda to date, to provide more feedback on the appropriateness of the agenda and to document to the extent possible the extent to which ARSSP supports the CDSS objective of improving long term sustainable employment and income opportunities.

Funds for the evaluation, which is planned for April 1991, will come from the technical assistance component and should provide for 18 person weeks to develop the report. Expertise on the team should include policy development and evaluation expertise, economic skills, sector program design skills; (including familiarity with AID requirements and policy) program management skills, and financial management skills.

#### VI. Program Financial Plan

The proposed utilization of funds provided under the Grant is indicated in the Program Financial Plan set forth in Attachment 1.1 hereto. Changes in this plan may be made by representatives of the Parties named in the Grant Agreement without formal amendment of the Agreement provided such changes do not cause (1) AID's funding commitment to exceed the amount specified in Section 3.1 of the Grant Agreement or (2) the Grantee's contribution to be less than the amount specified in Section 3.2 of the Grant Agreement.

AGRICULTURE AND RURAL SECTOR SUPPORT PROGRAM  
SUMMARY BUDGET SUPPORT PLAN AND COST ESTIMATES

(US \$ 000)

COMPONENT	ORIGINAL AGREEMENT		AMENDMENT 1		AMENDMENT 2			TOTAL PROGRAM
	AID (1)	GOI (2)	AID (3)	GOI (4)	AID TOTAL AUTHORIZATION (5)	FY 89 COMMITMENT (6)	GOI (7)	(1)+(2)+(3)+(4) +(5)+(7)
BUDGET SUPPORT	16,880	19,000	24,520	3,815	18,500	16,800	5,000	87,815
TECHNICAL ASSISTANCE	1,500	0	0	0	1,500	1,500	0	3,000
T O T A L	18,380	19,000	24,620	3,815	20,000	18,300	5,000	90,815
	=====	=====	=====	=====	=====	=====	=====	=====

PROGRAM GRANT STANDARD PROVISIONS

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

ARTICLE A: Provisions Applicable to Entire Grant

SECTION A.1. Program Implementation Letters. To assist the Grantee in the implementation of the Program, A.I.D., from time to time, will issue Program Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Program Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Program Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions that are permitted by the Agreement, including the revision of elements of the amplified description of the Program in Annex 1.

SECTION A.2. Execution of the Program. The Grantee will:

(a) 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 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 Program, and, as applicable for continuing activities, cause the Program to be operated and maintained in such a manner as to assure the continuing and successful achievement of the purposes of the Program.

SECTION A.3. Completeness of Information. The Grantee 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 Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Program 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 Program or the discharge of responsibilities under this Agreement.

SECTION A.4. Termination. Either Party may terminate this Agreement by giving the other Party thirty (30) days written notice.

Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Program pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of Grantee's country.

SECTION A.5. Interest. Any interest or other earnings on Grant funds disbursed by A.I.D. to the Grantee under this Agreement prior to the authorized use of such funds for the Program will be returned to A.I.D. by the Grantee.

SECTION A.6. Information. The Grantee will give appropriate publicity to the Grant and the Program as a program to which the United States has contributed.

SECTION A.7. Taxation. This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee.

SECTION A.8. Reports and Inspections. The Grantee will:

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

(b) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Program, the utilization of goods and services financed by such party, and books, records, and other documents relating to the Program and the Grant.

SECTION A.9. 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 a right or remedy.

ARTICLE B: Provisions Applicable to the Procurement of Goods and Services under the Technical Assistance Component of the Program

SECTION B.1. Utilization of Goods and Services

(a) All goods and services financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Program until the completion of the Program, and thereafter will be used so as to further the objectives of sought in carrying out the Program.

(b) Goods or services financed under the Grant, 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.

(c) Unless otherwise agreed by A.I.D. in writing, all goods financed under the technical assistance component of the Program will be identified as having been financed by A.I.D., using markings as prescribed in Program Implementation Letters.

#### SECTION B.2. Taxation

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

#### SECTION B.3. Books, Records and Audit

The Grantee will maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Program and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services financed under the Grant. 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 Program toward completion.

SECTION B.4. Other Payments. The Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

SECTION B.5. Air Transportation. Transportation by air, financed under the Grant, of property or persons will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Program Implementation Letter.

SECTION B.6. Eligibility Date. No goods or services may be financed under the Grant 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 B.7. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION B.8. Procurement of Certain Goods and Services. Funds provided under the Grant will not be used to finance the costs of motor vehicles, marine insurance or the shipment of goods by ocean vessel or aircraft without the prior approval of A.I.D. and in accordance with rules prescribed by A.I.D.

SECTION B.9. Plans, Specifications and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Grantee will furnish to A.I.D. upon preparation, any plans specifications, schedules, scopes or statements of work, and other documentation relating to goods or services to be financed under the Grant, 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 to A.I.D. on preparation. And,

(b) Documents related to the prequalification of contractors and to the solicitation of bids or proposals for goods and services financed under the Grant will be approved by A.I.D. in writing prior to their issuance. Contracts and contractors financed under the Grant for goods and services 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.

SECTION B.10. Notification to Potential Suppliers. To permit all United States firms to have an opportunity to participate in furnishing goods and services to be financed under the Grant, the Grantee will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Program Implementation Letters.

SECTION B.11. U.S. Government-Owned Excess Property. The Grantee agrees that whenever practicable, United States Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Grant may be used to finance the costs of obtaining such property for the Program.

SECTION B.12. Assignment. The Grantee agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.

ARTICLE C: Provisions Applicable to Budget Support Component of the Program

SECTION C.1. Identification of Budget Support Funds with Certain Expenditures

(a) The Grantee agrees that grant funds provided for budget support purposes will not be used for or identified with any activity, procurement or expenditure which has been determined by A.I.D. to be inappropriate for identification with A.I.D. financing. A listing of such activities, procurements or expenditures has been provided to the Grantee in a Program Implementation Letter.

(b) In the event that A.I.D. determines that the Grantee has disbursed budget support funds from the special account for any of the activities, procurements or expenditures included on the list referred to in subsection (a) above, the Grantee agrees, within ten (10) days from the date of receipt of a request therefor from A.I.D., to redeposit into the special account an amount equal to such disbursement, and such funds will thereafter be used for such budget support purposes as the Parties agree upon in writing.