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A.I.D. Program No. 492-0444

GRANT AGREEMENT  
BETWEEN THE  
UNITED STATES OF AMERICA  
AND THE  
REPUBLIC OF THE PHILIPPINES  
FOR THE  
NATURAL RESOURCES MANAGEMENT PROGRAM

Dated: September 28, 1990

**TABLE OF CONTENTS  
PROGRAM GRANT AGREEMENT**

	<u>Page</u>
Article 1: The Agreement	1
Article 2: The Program	
Section 2.1. Definition	1
Section 2.2. Incremental Nature of Program Funding	2
Article 3: Financing	
Section 3.1. The Grant	3
Section 3.2. Grantee Resources for the Program	3
Section 3.3. Program Assistance Completion Date	3
Article 4: Conditions Precedent to Disbursement	
Section 4.1. Conditions Precedent to Initial Disbursement	4
Section 4.2. Conditions Precedent to Initial Performance-Based Disbursement for Policy Reform	5
Section 4.3. Conditions Precedent to Each Subsequent Performance-Based Disbursement	6
Section 4.4. Notification	8
Section 4.5. Terminal Dates for Conditions Precedent	8
Article 5: Special Covenants	
Section 5.1. The U.S. Dollar Special Account	9
Section 5.2. Disbursements from the U.S. Dollar Special Account	9
Section 5.3. Peso Special Account	10
Section 5.4. Disbursements from the Peso Special Account	11
Section 5.5. Budget Increases for the Department of Environment and Natural Resources	11
Section 5.6. Review of Progress in Program	11
Section 5.7. Program Evaluation	11
Article 6: Disbursement	
Section 6.1. Disbursement of Funds	12
Section 6.2. Rate of Exchange	12
Article 7: Miscellaneous	
Section 7.1. Communications	12
Section 7.2. Representatives	13
Section 7.3. Standard Provisions Annexes	14

Table of Contents

Page

<u>ANNEX 1 - DESCRIPTION OF PROGRAM</u>		
<u>ANNEX 2 - PROGRAM GRANT STANDARD PROVISIONS ANNEX</u>		
Article A:	Implementation Letters	1
Article B:	General Covenants	
Section B.1.	Consultation	1
Section B.2.	Execution of Program	1
Section B.3.	Taxation	1
Section B.4.	Reports, Records, Inspections, Audit	2
Section B.5.	Publicity	2
Section B.6.	Completeness of Information	2
Article C:	Termination; Refunds; Remedies	
Section C.1.	Termination	2
Section C.2.	Refunds	3
Section C.3.	Nonwaiver of Remedies	3
<u>ANNEX 3 - STANDARD PROVISIONS ANNEX</u>		
Article A:	Program Implementation Letters	1
Article B:	General Covenants	
Section B.1.	Consultation	1
Section B.2.	Execution of Program	1
Section B.3.	Utilization of Goods and Services	2
Section B.4.	Taxation	2
Section B.5.	Reports, Records, Inspections, Audit	2
Section B.6.	Completeness of Information	3
Section B.7.	Other Payments	3
Section B.8.	Information and Marking	3
Article C:	Procurement Provisions	
Section C.1.	Special Rules	3
Section C.2.	Eligibility Date	4
Section C.3.	Plans, Specifications and Contracts	4
Section C.4.	Reasonable Price	5

<u>Table of Contents</u>	<u>Page</u>
Section C.5. Notification to Potential Suppliers	5
Section C.6. Shipping	5
Section C.7. Insurance	6
Section C.8. U.S. Government-Owned Excess Property	7
Article D: Termination; Remedies	
Section D.1. Termination	7
Section D.2. Refunds	7
Section D.3. Nonwaiver of Remedies	8
Section D.4. Assignment	8

PROGRAM GRANT AGREEMENT FOR THE  
NATURAL RESOURCES MANAGEMENT PROGRAM

Dated: September 28, 1990

Between

Republic of the Philippines (hereinafter referred to as the  
"Grantee")

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 Grantee of the Natural Resources Management Program (the "Program") described below, and with respect to the financing of the Program by the Parties.

Article 2: The Program.

Section 2.1.(a) Definition. The Natural Resources Management Program consists of performance-based disbursements for policy reform, a grant program for non-governmental organizations, and a supporting technical assistance element. The Program, which is further described in the Annex 1, Program Description, provides for disbursements for the implementation of policy reforms in natural resources management with particular regard to the forestry sector and the wood processing industry, as well as financing for a grant program for non-governmental

organizations, including debt-for-environment swaps, for research grants, related commodities, and for technical assistance, training, monitoring evaluation, and audit.

The Program is designed to help lay the foundation for sustained ecological and economic growth by encouraging policy reforms leading to sustainable natural resources protection and management. Based upon establishment of mutually agreed annual benchmarks and the performance of the Government of the Philippines in meeting those benchmarks, performance-based disbursements will be made to the Government of the Philippines. Annex 1, attached, amplifies the above definition of the Program. Within the limits of the above definition of the Program, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the parties named in Section 7.2 without formal amendment of this Agreement. The Annex 2, Program Grant Standard Provision Annex, shall apply to the performance-based disbursements.

**Section 2.1.(b) Definition of the Technical Assistance Element and Supporting Activities.** As part of the Program and in support of the performance-based disbursements, funds will be made available for grants to non-governmental organizations, commodities and other supporting activities such as technical assistance for research, training, monitoring, evaluation and audit. With regard only to those aspects of the Program, the Standard Provisions Annex included as Annex 3 shall apply.

**Section 2.2. Incremental Nature of Program Funding.**

(a) A.I.D.'s contribution to the Program 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 each subsequent increment, to proceed.

(b) Within the overall Program Assistance Completion Date ("PACD") stated in this Agreement, A.I.D., based upon consultation with the Grantee, may specify in Implementation Letters appropriate time periods for the utilization of funds granted by A.I.D. under each individual increment of assistance.

### Article 3. Financing.

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 the Grantee under the terms of this Agreement not to exceed Thirty Million United States ("U.S.") Dollars (\$30,000,000) ("Grant").

#### Section 3.2. Grantee Resources for the Program.

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

(b) The resources provided by the Grantee for the Program will not be less than the equivalent of U.S. \$33,400,000, including costs borne on an in-kind basis.

#### Section 3.3. Program Assistance Completion Date (PACD).

(a) The PACD, which is September 30, 1995, 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 Grant will have been

performed and all goods financed under the Grant will have been furnished for the Program 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 Grant for the program as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in 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 Implementation Letters, were not received before the expiration of said period.

**Article 4. Conditions Precedent to Disbursement.**

**Section 4.1. Conditions Precedent to Initial Disbursement.**

Except as A.I.D. may otherwise agree in writing, prior to the initial disbursement under this Grant or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall furnish or have furnished to A.I.D., in form and substance satisfactory to A.I.D.:

(a) a written opinion of Counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

(b) a written statement setting forth the names and titles of persons holding or acting in the Office of the Grantee and of any additional representatives, in accordance with Section 7.2, and representing 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 such person certified as to its authenticity.

Section 4.2. Conditions Precedent to Initial Performance-Based Disbursement for Policy Reform. Except as A.I.D. may otherwise agree in writing, prior to the first performance-based disbursement or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall furnish or have furnished to A.I.D., in form and substance satisfactory to A.I.D.:

(a) evidence of performance in meeting the performance indicators for the first performance-based disbursement of the Program;

(b) an implementation plan specifying (i) the responsibilities and interrelationships of the entities involved in the receipt and disbursement of U.S. dollar funds, (ii) a schedule of payments proposed to be made by the Grantee using U.S. dollars provided in the tranche release and any interest earned thereon, identifying payees, amounts and due dates of the loans, and (iii) the type of documentation to be obtained and maintained by or on behalf of the Grantee evidencing the use of U.S. dollars disbursed from funds provided through the Program;

(c) a statement of the name, branch and U.S. Federal Reserve Bank branch number of each bank with which the U.S. dollars to be disbursed will be deposited, with the respective amount of U.S. dollars to be deposited in each account;

(d) an implementation plan specifying (i) the responsibilities and interrelationships of the entities involved in the receipt and disbursement of funds held in the NRMP Peso Special Account, (ii) the budget categories and eligible programs within those budget categories, against which disbursements will be reported for purposes of this Agreement, and (iii) a schedule for disbursement of funds from said Account;

(e) written agreement to A.I.D. Project Implementation Orders/Technical Services (PIO/Ts) for technical assistance as described in Section II.C. of Annex 1 to this Agreement;

(f) documentation evidencing that the Grantee has established a separate peso account to which peso deposits shall be made equivalent to the dollars transferred to the Grantee as performance-based disbursements for policy reform, which shall be referred to as the "NRMP Peso Special Account;" and

(g) written evidence of the Grantee's undertaking to take the necessary steps to allow A.I.D. to provide Program funds to non-governmental organizations for debt-for-environment swaps, and the terms and conditions thereof, up to \$5,000,000. The amount actually programmed will depend on the availability of funds, mutually-agreed program activities, availability of appropriate debt instruments and the overall monetary program of the Grantee.

Section 4.3. Conditions Precedent to Each Subsequent Performance-Based Disbursement. Except as A.I.D. may otherwise agree in writing, prior to each subsequent performance-based disbursement or to the issuance by A.I.D. of documentation pursuant to which such

disbursement will be made, the Grantee shall furnish or have furnished to A.I.D., in form and substance satisfactory to A.I.D.:

(a) written evidence of performance in meeting the performance indicators for the performance-based disbursement as agreed upon with A.I.D.;

(b) a written agreement on modifications, as appropriate, to the policy implementation matrix which includes the policy objectives and performance benchmarks for the ensuing performance-based disbursement;

(c) an implementation plan specifying (i) the responsibilities and interrelationships of the entities involved in the receipt and disbursement of U.S. dollar funds; (ii) a schedule of payments proposed to be made by the Grantee using U.S. dollars provided in the tranche release and any interest earned thereon, identifying payees, amounts and due dates of the loans, and (iii) the type of documentation to be obtained and maintained on or behalf of the Grantee evidencing the use of U.S. dollars disbursed from funds provided through the Program;

(d) a statement of name, branch, and U.S. Federal Reserve Bank Branch number of each bank with which the U.S. dollars to be disbursed will be deposited, with the respective amount of U.S. dollars to be deposited in each account;

(e) an implementation plan specifying (i) the responsibilities and interrelationships of the entities involved in the receipt and disbursement of funds held in the NRMP Peso Special Account, (ii) the budget categories and eligible programs within those budget categories, against which disbursements will be reported for purposes of this Agreement, and (iii) a schedule for disbursement of funds from said Account;

(f) written evidence that the payments made pursuant to paragraph (c) of this Section 4.3. in connection with any prior disbursement of U.S. dollars have been made in accordance with Section 5.2;

(g) written evidence of the Grantee's undertaking to take the necessary steps to allow A.I.D. to provide Program funds to non-governmental organizations for debt-for-environment swaps, and the terms and conditions thereof, up to the total amount made available under the Agreement for the natural resources protection component of the Program. The amount actually programmed will depend on the availability of funds, mutually-agreed program activities, availability of appropriate debt instruments and the overall monetary program of the Grantee.

Section 4.4. Notification. When A.I.D. has determined that the conditions precedent specified in Sections 4.1, 4.2 and 4.3 have each been met, A.I.D. will promptly so notify the Grantee.

Section 4.5. Terminal Dates for Conditions Precedent.

(a) If the conditions specified in Section 4.1 have not been met within 60 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., after consultations with the Grantee may, at its option, terminate this Agreement by written notice to the Grantee.

(b) If the conditions specified in Section 4.2 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., after consultations with the Grantee may, at its option, cancel the then undisbursed balance of the Grant to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Grantee.

(c) If the conditions specified in Section 4.3 have not been met on an annual basis by December 30 or such dates as A.I.D. may agree to in writing, A.I.D., after consultations with the Grantee may, at its option, cancel the then undisbursed balance of the Grant to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Grantee.

Article 5. Special Covenants.

The Government of the Republic of the Philippines shall, except as A.I.D. may otherwise agree in writing, covenant, or cause to be covenanted, as follows:

Section 5.1. U.S. Dollar Special Account. The separate bank account or accounts into which U.S. dollars disbursed pursuant to Sections 4.2(c) and 4.3(d) shall be referred to collectively as the "NRMP Dollar Special Account." Funds so deposited into the NRMP Dollar Special Account shall not be commingled with funds from any other source, provided however that the NRMP Dollar Special Account shall include interest, if any, earned on funds held in said Account. The Grantee shall promptly furnish to A.I.D. in form and substance satisfactory to A.I.D. (i) documentation evidencing deposits into said Account and (ii) periodic statements of balances held in said Account, including interest, if any, earned on funds held therein.

Section 5.2. Disbursements from the U.S. Dollar Special Account. U.S. dollars held in the NRMP Dollar Special Account referred to in Section 5.1. shall be disbursed by the Central Bank of the Philippines in accordance with the implementation plan submitted in satisfaction

of Sections 4.2.(b) and 4.3(c) to pay debt service obligations of the Grantee (other than obligations incurred for public corporations) and of the Central Bank of the Philippines to the International Monetary Fund, the International Bank for Reconstruction and Development, the International Development Association, or the Asian Development Bank, in accordance with the schedules of payments provided pursuant to Sections 4.2(b) and 4.3.(c). Funds held in said Account shall be used solely for the foregoing purpose, or for such other purposes as the Parties may mutually agree upon, until all funds held in said Account from time to time have been disbursed for such purpose.

Section 5.3. Peso Special Account. Pesos equivalent to the U.S. Dollar Performance-Based Disbursements shall be deposited in the NRMP Peso Special Account within one business day of the transfer of dollars to the Grantee. In determining the total amount of pesos required to be deposited in the NRMP Peso Special Account in connection with each such dollar deposit, dollars shall be converted at the maximum legal rate of exchange prevailing in the Philippines on the day of transfer. Funds so deposited into the NRMP Peso Special Account shall not be commingled with funds from any other source, provided however, that the NRMP Peso Special Account shall include interest, if any, earned on funds held in said Account. The Grantee shall promptly furnish to A.I.D. in form and substance satisfactory to A.I.D (i) documentation evidencing deposits into said Account and (ii) periodic statements of balances held in said Account, including interest, if any, earned on funds held therein.

Section 5.4. Disbursements from the Peso Special Account. Pesos held in the NRMP Peso Special Account referred to in Section 5.3 shall be transferred to the General Fund in accordance with the implementation plan submitted in satisfaction of Sections 4.2(d) and 4.3(e) to support the budget of the Department of the Environment and Natural Resources, or other activities in support of the Program. An amount which is at least 125 percent of the amount transferred from the NRMP Peso Special Account shall be disbursed by the Grantee in the budget categories and eligible programs agreed upon pursuant to Sections 4.2.(d) and 4.3.(e).

Section 5.5. Budget Increases for the Department of Environment and Natural Resources. Budget increases for the Department of Environment and Natural Resources, agreed-upon as performance indicators pursuant to this Agreement, shall be in addition to the peso funds generated by performance-based disbursements under this Agreement.

Section 5.6. Review of Progress in Program. Reviews of progress of policy reforms to be implemented by the Grantee, as set forth in the Program Description annexed hereto, shall be conducted in a timely fashion twice each year. The Grantee agrees to cooperate with the monitoring contractor in carrying out the analytical work for this review.

Section 5.7. Program Evaluation. A mid-term and final evaluation shall be conducted as part of the Program. Except as the Parties may otherwise agree in writing, the evaluations will include the elements of the evaluation component as set forth in the Program Description annexed hereto.

Article 6: Disbursement.

Section 6.1. Disbursement of Funds. After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Program by submitting to A.I.D. a written request for such disbursement. The Parties may agree in writing to alternate means for disbursement.

Section 6.2. Rate of Exchange. If funds provided under the Grant 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 Grantee will make such arrangements as may be necessary so that such funds may be converted into Philippine currency at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Republic of the Philippines.

Article 7: Miscellaneous.

Section 7.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram, telefax or cable, and will be deemed duly given or sent when delivered to such Party at the following addresses:

To the Grantee:

Mail Address: Department of Environment and  
Natural Resources  
Visayas Avenue, Diliman  
Quezon City, Philippines

Alternate address for Telex: 27973 ENVINAR PH  
Telefax: 994938

with a copy to:

Mail Address: National Economic and Development Authority  
P.O. Box 419, Greenhills, Metro Manila  
Philippines

Alternate address for cables: NEDAPHIL  
telefax: 631-21-94

and a copy to:

Mail Address: Department of Finance  
Five Storey Building  
Central Bank Building  
Manila, Philippines

Alternate Address for telex: 40268 CBCONF  
telefax: 521-01-06 & 521-94-95

To A.I.D.:

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

Alternate address for cables: 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 7.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of the Secretary, Department of Environment and Natural Resources, and/or in the office of the Secretary, Department of Finance, and/or 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 1. The names of the representatives of the Grantee, 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.

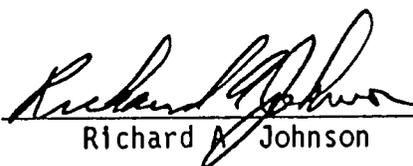
Section 7.3. Standard Provisions Annexes. A "Program Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement. A "Standard Provisions Annex" (Annex 3) for application to the grants program, technical assistance, monitoring and evaluation services under the Program is also attached to, and forms part of, this Agreement.

IN WITNESS WHEREOF, the Grantee 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 day and year first above written.

REPUBLIC OF THE PHILIPPINES

UNITED STATES OF AMERICA

By:   
Romeo L. Bernardo

By:   
Richard A. Johnson

Title: Undersecretary  
Department of Finance

Title: Acting Mission Director  
United States Agency for  
International Development

NATURAL RESOURCES MANAGEMENT PROGRAM  
AMPLIFIED PROGRAM DESCRIPTION

I. OVERVIEW

This five-year, \$125 million Natural Resources Management Program is designed to help establish a foundation for sustained ecological and economic growth in the Philippines through policy reforms in the protection and management of natural resources, particularly with regard to the forestry sector and the wood processing industry. The broad sector goal of the Program is to strengthen the capacity of DENR to make effective policies, and to enhance the roles of non-governmental organizations, communities and the private sector in protection and sustainable management of natural resources.

The end-of-program status targets are as follows:

- o Logging in the remaining old-growth forests will have ceased. Old-growth forests will have been mapped, with the areas most critical for biological diversity and other protection values marked on the ground. User rights to these forests will have been clarified with tribal groups and other communities, who will then act as agents of protection and stewardship.
- o The work of NGOs in forest conservation and environmental protection will be well established.
- o Secure tenure arrangements will motivate private groups and individuals to protect and manage natural resources.
- o Management of the residual forests will have been made possible by detailed maps, reliable inventories, and marking of

management units on the ground. The GOP will transfer timber cutting rights through methods of appraisal and auction, leading to greater harvesting efficiency and revenue for GOP.

- o Policies on timber pricing will entail implementation of an "environmental fee" tested for effectiveness in raising higher revenues for GOP, and for restructuring the forest products industries towards economic efficiency. The "environmental fee" will be the first step in a progression towards continuously improving pricing policies for forest resources.
- o Raw materials for the forest products industries will comprise increased proportions of plantation-grown wood and imported soft-wood logs, the latter facilitated by deliberate policies to maintain low tariff and non-tariff barriers.
- o Exports of lumber, furniture, rattan products, and other forest products will earn substantial foreign exchange, based upon the outcome of studies on the effect of present regulatory policies on these commodities and overall impact on the economy and the environment.

## II. PROGRAM COMPONENTS.

The NRMP has three main components: policy reform, a grant program for non-governmental organizations, and a technical assistance element.

### A. Policy Reform

Based upon performance of agreed-upon indicators, performance-based disbursements will be made to the GOP to support the adoption of policy reforms concerning environmental protection and management. The

transfers will be made in dollars to the GOP which will then deposit an equivalent amount of pesos into an NRMP Peso Special Account to be used for programs of the GOP in support of natural resources protection and management. The dollars received by the GOP under this component will be used in accordance with Section 5.2 of the Agreement.

B. Natural Resources Protection Component

The Natural Resources Protection component directly supports activities of non-governmental organizations (NGOs) to conserve biological diversity and enhance sustainable natural resources management. This component will be implemented in two phases. In the first phase, USAID may provide up to \$5,000,000 for debt-for-nature swaps. This may include a \$700,000 grant to World Wildlife Fund (WWF), a U.S. NGO, to complete an existing \$2 million debt-for-environment swap arrangement in support of on-going activities such as the improved management of terrestrial and nature reserves in Palawan. WWF will be expected to contribute its own funds to pay for its transaction costs incurred in the swap as well as for any foreign technical assistance.

In the second phase, debt-for-nature swaps may be used to generate funds for an endowment of an environmental foundation that will evaluate and fund proposals for environmental protection and management. If a new foundation is to be supported, technical assistance would be provided to develop the purposes of the proposed foundation and the legal framework for it. Also, technical assistance could help the foundation in its early years to establish its program and management systems to evaluate and fund proposals from Philippine NGOs and community environmental protection groups.

Priority under this component will be given to support community-based natural resource efforts such as the planned Integrated Protected Areas System. The Parties may agree, however, to extend support to a wider range of NGO environmental natural resources activities.

C. Support Services Component

Funding is provided for approximately 62-person years of technical assistance to assist DENR and other public and private agencies for policy analyses; planning; environmental assessments; information and education; training; and research and development. The technical assistance will also be provided to assist members of forest products processing trade organizations to improve the industry efficiency and economics through new technologies and improved environmental protection measures.

Funding is provided for limited commodities for DENR for natural resources planning and monitoring, and for forest and forest-products-processing research and technology transfer.

USAID will contract directly for technical assistance under the Program, using standard U.S. Government procurement rules. It is anticipated that the contractors providing support services may subcontract for services under this component.

Funding is provided under this component for institutional support grants to Philippine environmental NGOs participating in the Program.

All participant training funded under the Program shall be conducted in accordance with A.I.D. Handbook No. 10.

### III. PROGRAM SUMMARY

#### A. Program Objective

Natural resources remain essential to economic growth in the Philippines. The primary rationale of the Program is that the proper management of the forestry sector in particular is of high economic and ecological importance to the Philippines. The immediate objective of the Program is to arrest the long term decline of the forestry sector in terms of employment, value added and foreign exchange earnings, and also protect the remaining 800 thousand hectares (approx.) of primary dipterocarp forest from encroachment.

The Program will assist the GOP to develop the policy environment for (1) management of forests for economic growth and ecological sustainability, and (2) greater economic efficiency in the forest products industries. USAID and DENR recognize that these two purposes are complementary and are inextricably linked. Forests are a potentially renewable resource, but in fact will be depleted unless the policy and institutional climate favors long-term perspectives in industry as well as in land management.

Forest products industries permitted to pursue strategies which are economically efficient make forests a more valuable resource than they would otherwise be. Conversely, forest-based industries can do enormous harm to the forests and to the national economy when not operating within a business and policy environment of rational timber pricing, necessary access to international markets, secure land tenure, and competitive entry and exit of enterprises.

B. Program Mode

The program mode of funding is being used for this effort. The GOP will administer the local currency generations as part of its overall program for environmental and natural resource protection. The policy objectives and performance indicators in the policy matrix cover the life of program, but only the indicators for the first and second disbursement are considered firm. Implementation actions and indicators for subsequent program disbursements will be reviewed and may be revised as needed.

USAID and DENR will meet at least twice a year to review progress against indicators for the next disbursement. Prior to disbursement, USAID and DENR will meet to review performance and to agree upon revisions as needed to the implementation actions and indicators for the following year. During reviews of progress and matters affecting accomplishment of the performance indicators, A.I.D. will take into consideration minor deviations and factors not anticipated or beyond the control of the GOP.

It is planned that \$75 million in performance-based disbursements will be made available, subject to the availability of funds and mutual agreement of the Parties, based on satisfactory performance in meeting the performance indicators in the policy matrix, attached to this Annex 1 as Attachment 1, and other conditions precedent as specified in the Agreement. An initial disbursement of \$15 million is planned for December 1990; the remaining three disbursements of \$20,000,000 each are planned for the period 1991 to 1995 as the performance indicators are achieved.

Continuing policy dialogue will be held between the GOP and A.I.D. related to the Program.

C. Policy Reform

The following is a summary of the policy objectives supported by the Program. Agreed-upon benchmarks derived from these categories are included in the policy matrix which appears as Attachment 1 to this Annex. The policy objectives are designed to:

1. involve communities and local governments in forest protection and management;
2. increase economic growth in forest products industries;
3. prohibit logging in old-growth forests, and
4. improve forest management so that forests can be sustained in a manner that is both economically and ecologically sound.

IV. PROGRAM IMPLEMENTATION

DOF, DBM and the Central Bank are responsible for the disbursement aspects of the policy reform component. DENR is designated for the accomplishment of the policy actions agreed upon in the Policy Matrix, and is the lead GOP agency for the implementation of other activities under the Program.

NEDA will monitor, in coordination with DENR, the progress of implementation of the policy actions under the Policy Reform Component and will coordinate the progress reviews on GOP performance against the benchmarks in the Policy Matrix.

It is anticipated that USAID will contract directly for technical assistance under the Program, and will enter into grant agreements with

NGO's for debt swaps and other activities. It is planned that the technical assistance contractors will arrange for training under the Program.

V. MONITORING, EVALUATION AND AUDIT

Monitoring and evaluation are essential to the implementation of program assistance. USAID will contract for technical services to monitor progress towards meeting the performance indicators and the implementation actions as agreed upon initially, and, following the second disbursement, as revised by DENR and USAID during progress reviews. A mid-term evaluation is expected in late 1992. In addition to evaluating progress to date, it may recommend revisions in NRMP design and structure for the second half of the Program. Based on the midterm evaluation, USAID and DENR will consider amending the Program's policy matrix and implementation arrangements, as needed.

The final evaluation, scheduled for early 1995, will determine whether the Program has achieved its end-of-Program status targets. In addition, the final evaluation will examine the effectiveness of the innovativeness of the performance based assistance and the debt swap approach to assisting NGOs in the natural resources sector.

USAID may contract unilaterally with Program funds for the services of a financial monitoring contractor to monitor the dollar disbursements under the Policy Reform component, as well as disbursements under other components of the Program, and for a study to assess the viability of using standard GOP reports as a basis for final documentation of program disbursements.

22

Primary responsibility for audits of A.I.D. programs lies with the Regional Inspector General for Audit. However, USAID may use Program funds to contract unilaterally for the services of a public independent accounting firm.

**VI. FINANCIAL PLAN**

The Financial Plan attached as attachment 2 is illustrative. Changes may be made to the plan by representatives of the Parties named in the text of the Agreement without formal amendment of the Agreement if such changes do not cause (1) A.I.D.'s contribution to exceed the amount specified in the text of the Agreement, or (2) the Grantee's contribution to be less than the amount specified in the text of the Agreement. Adjustments may be made among line items as long as they are agreed to in writing.

The GOP contribution of \$33,400,000 over the life of the Program, in cash and in-kind, is based on budget allocations for DENR in the functional line items of forest management and general and administrative support services.

23

POLICY REFORM MATRIX FOR PERFORMANCE BASED DISBURSEMENTS UNDER NRMP

Policy Actions	Performance Indicators			
	First Tranche	Second Tranche	Third Tranche	Fourth Tranche
1. Increase tenure security to encourage private investment in sustainable forestry management.	Agreed on SOW to analyze major factors affecting tenure security (ancestral domain, public vs. private ownership, et al).	AO issued ensuring compensation to TLA holders whose licenses are revoked for reasons other than non-compliance.	Formal GOP (DENR)* action taken to implement agreed upon study recommendations for increased tenure security.	
2. GOP collect substantially larger % of economic rents of timber harvested on forest concessions.	Forest charges increased by at least 20% from the 1989 levels.	Revenues from forest charges collected in 1990 are 300% of revenues in 1989.	Revenues from forest charges collected in 1991 are 500% of revenues in 1989.	Revenues from forest charges collected in 1992 are 500% of revenues in 1989.
3. Revoke or amend regulations that restrict exit/entry of firms to & from forest products industries.	Agreed on SOW to study impact of current regulatory policies; eg., capacity & trade restrictions, etc.		Formal GOP (DENR) action taken to implement agreed upon regulatory reforms in sector.	
4. Encourage private investment & competition in sector by divesting/liquidating parastatals and/or GOP equity/assets in forest enterprises.			More than 25% of aggregate equity/assets as of Sept. 1990 in these firms has been offered for sale on fair market terms and conditions and widely publicized.	More than 50% of aggregate equity/assets as of Sept. 1990 in these firms has been offered for sale on fair market terms and conditions and widely publicized.

Note: GOP = Philippine Govt.; SOW = Scope of Work; LGU = Local Govt. Units;  
 AO = Administrative Order; DENR = Dept. of Environment & Natural Resources;  
 TPSA = Timber Production Sharing Agreements; GOP FY\_ = Follows calendar year;  
 NGOs = Non-Government Organizations; MOU = Memorandum of Understanding;  
 mngt. = management; incl. = including; TDT = Technology development & transfer

\*"GOP" in the matrix refers to the executive branch of the Government of the Philippines. The agency that appears in parentheses is the lead agency for the GOP in carrying out the policy action.

21

Policy Actions	Performance Indicators			
	First Tranche	Second Tranche	Third Tranche	Fourth Tranche
5. Preserve remaining old growth forests & the biodiversity contained therein.	Agreed to ban logging on slopes over 50% and on the remaining old growth areas.	Adm. Order issued with guidelines for implementing agreed upon bans.	Ban implemented in 50% of high slope sites with significant old growth forest area.	Ban implemented in 100% of high slope sites with significant old growth forest area.
6. Rationalize DENR management of residual forests and provide adequate financial resources to carry out its mandate.	Agreed to issue AO establishing guidelines for DENR selection of private contractors to develop forestry mngt. plans.	Budget submitted to Congress for forestry mngt. activities is P100 million above FY91 level.	Budget submitted to Congress for forestry mngt. activities is P200 million above FY91 level.	Budget submitted to Congress for forestry mngt. activities is P200 million above FY91 level.
7. Facilitate technology development & transfer in forestry management & preservation plus wood processing.		TDT plans have been jointly developed by public and private sectors; incl. budgets and TORS	Budget provided, TDT program underway & progress reviewed by private & public sectors.	
8. Increase local community and NGO participation in forestry management.	AO issued giving guidelines for NGO participation in community forestry programs.	DENR finalized 25 community forestry mngt. agreements which utilize NGOs to provide services.		At least 75 community forest management projects initiated and underway with NGO assistance.

8

Illustrative

Annex 1  
Attachment 2

NATURAL RESOURCES MANAGEMENT PROGRAM  
Financial Plan  
(000's)

<u>Component</u>	<u>Obligations</u> <u>as of FY 1990</u>	<u>Future Years</u> <u>Anticipated<sup>a/</sup></u>	<u>Total</u>	
	<u>A.I.D.</u>	<u>A.I.D.</u>	<u>A.I.D.</u>	<u>G.O.P.</u> <sup>b/</sup>
A. Policy Reform	15,000	60,000	75,000	33,400
B. Resources Protection	5,000	20,000	25,000	-
C. Support Services Component	9,000	11,000	20,000	-
D. Monitoring, Evaluation and Audit	1,000	4,000	5,000	-
Total	<u>30,000</u>	<u>95,000</u>	<u>125,000</u>	<u>33,400</u>

<sup>a/</sup> Subject to the availability of funds and mutual agreement of the Parties to proceed.

<sup>b/</sup> \$1 - P25

PROGRAM GRANT  
STANDARD PROVISIONS ANNEX

Article A: Implementation Letters

To assist Grantee in the implementation of the Program, A.I.D., from time to time, will issue Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. 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 Program in Annex 1.

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 Program, the performance of obligations under this Agreement and other matters relating to the Program.

Section B.2. Execution of Program. The Grantee will 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.

Section B.3. Taxation.

(a) This Agreement and the Grant will be free from any taxation or fees imposed under the laws in effect in the territory of the Grantee.

(b) 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 laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

Section B.4. Reports, Records, Inspections, Audit.

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, including but not limited to: quarterly reports on disbursement of pesos made against eligible budget categories, certified by a responsible officer of the Grantee to the effect that accounts reported therein have not been reported against any other external assistance, and appropriate reports from the Commission on Audit;

(b) 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, activities under the Program. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of the last disbursement by A.I.D.;

(c) afford authorized representatives of the Party the opportunity at all reasonable times to inspect books, records, and other documents relating to the Program.

Section B.5. Publicity. The Grantee will give appropriate publicity to this Grant and the Program and activities thereunder as a program to which the United States has contributed. Representatives of Grantee and A.I.D. will confer from time to time to make specific arrangements for such publicity.

Section B.6. 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;

(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.

Article C: Termination; Refunds; Remedies.

Section C.1. Termination. Either party may terminate this Agreement by giving the other Party 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. Any unencumbered balances of funds which remain in the U.S. dollar account upon termination of assistance hereunder shall be disposed of for such purposes as may be agreed upon by the Representatives referred to in Section 7.2 of this Agreement.

Section C.2. Refunds.

(a) In the case of any use of the funds provided under this Agreement, including any interest which would have accrued, which is not made 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 said funds not utilized in accordance with the Agreement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) The right under Section C.2.(a) to require a refund will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement by A.I.D. under this Agreement.

Section C.3. 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.

39