

PD-ABC-413
CONFORMED COPY

A.I.D. Program No. 492-0436

Loan and Grant Agreements

FM/LMD (if Loan)

FM/PAFD

FM/CAD

GC/ANE

ANE/Desk

ANE/TR Officer

ANE/PD Officer & File

PPC/CDIE/DI

GRANT AGREEMENT
BETWEEN THE
UNITED STATES OF AMERICA
AND THE
REPUBLIC OF THE PHILIPPINES
FOR THE
LOCAL DEVELOPMENT ASSISTANCE 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	5
Section 4.3. Conditions Precedent to Each Subsequent Performance-Based Disbursement	6
Section 4.4. Notification	7
Section 4.5. Terminal Dates for Conditions Precedent	7
Article 5: Special Covenants	
Section 5.1. The U.S. Dollar Special Account	8
Section 5.2. Disbursements from the U.S. Dollar Special Account	8
Section 5.3. Review of Progress in Program	9
Article 6: Disbursement	
Section 6.1. Disbursement of Funds	9
Section 6.2. Rate of Exchange	9
Article 7: Miscellaneous	
Section 7.1. Communications	10
Section 7.2. Representatives	10
Section 7.3. Standard Provisions Annexes	11

<u>Table of Contents</u>	<u>Page</u>
<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: Project 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
LOCAL DEVELOPMENT ASSISTANCE 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 Local Development Assistance 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 Local Development Assistance Program consists of performance-based disbursements, support grants to non-governmental organizations, and a supporting technical assistance element. The Program, which is further described in the Annex 1, Program Description, provides for disbursements of grant funds based on policy reform concerning decentralization, and funds will be provided for grants to organizations supporting decentralization efforts, as well as for

technical assistance for policy studies, monitoring, evaluation and audit. The Program is designed to provide balance of payments support to the Government of the Philippines while laying the foundation for sustained economic growth and social development by encouraging policy reforms in decentralization of government functions. 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 Grantee. The broad sector goal of the Program is increased authority and resources in, and capacity of, Local Government units. 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 Supporting Activities. As part of the Program and in support of the performance-based disbursements, grants to non-governmental organizations, and technical assistance for policy studies, monitoring, evaluation and audit will be financed. 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 Forty-Five Million Twenty Thousand Four Hundred and Nine United States ("U.S.") Dollars (\$45,020,409) ("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 be not less than the equivalent of U.S. \$16,700,000 including costs borne on an "in-kind" basis.

Section 3.3. Program Assistance Completion Date (PACD).

(a) The PACD, which is December 31, 1993, 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, 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; and

(c) agreement in writing to A.I.D. Project Implementation Orders for policy performance monitoring, and for a cooperative agreement to manage the grant component of the Program, as described in the Program Description annexed hereto.

Section 4.2. Conditions Precedent to Initial Performance-Based Disbursement. 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; and

(d) evidence that conditions precedent in Section 4.1 have been met.

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) 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, and

(e) 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.

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 May 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. The U.S. Dollar Special Account. The separate bank account or accounts into which U.S. dollars disbursed pursuant to Section 4.2(c) and 4.3(d) shall be referred to collectively as the "LDAP Dollar Special Account." Funds so deposited into the Special Account shall not be commingled with funds from any other source, provided however that the LDAP 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 LDAP 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. 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 Parties agree to cooperate with the monitoring contractor in carrying out the analytical work for this review.

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 Finance
Central Bank Building
Malate, Manila, Philippines

Alternate address for telex: 40268 CBCONF
telefax: 521-0106 & 521-9495

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: 631-2194

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 Finance 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.

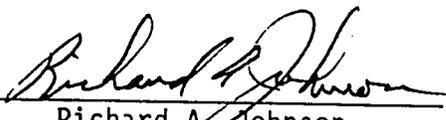
Section 7.3. Standard Provisions Annexes. A "Program Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement. A "Standard Provisions Annex" (Annex 3) for application to the small support grants, technical assistance, monitoring and evaluation services under the Program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

LOCAL DEVELOPMENT ASSISTANCE PROGRAM DESCRIPTION

I. OVERVIEW

The Local Development Assistance Program (LDAP) is designed to establish a foundation for sustained economic and social development by encouraging policy reforms that will lead to increased autonomy of local government units (LGUs), including provinces, cities, municipalities and barangays.

II. PROGRAM COMPONENTS

The Local Development Assistance Program has three principal components: Performance-Based Disbursements, Technical Assistance, and Grants to Non-Governmental Organizations.

A. Performance-Based Disbursement

Based upon performance of agreed-upon benchmarks, performance-based disbursements will be made to the Government of the Philippines (GOP) to encourage the adoption of decentralization policy reform. For the purposes of this Agreement, decentralization is defined as the transfer of power, responsibility and resources from the national to local government levels for the performance of specific public functions contributing to local development. The dollars received by the GOP under this component will be used in accordance with the terms of the Agreement.

B. Technical Assistance Services

This component includes services consisting of policy performance monitoring to track the implementation of reforms by the appropriate GOP departments to meet the required benchmarks for disbursements; policy studies; evaluation and operational research to monitor the efforts of policy reforms at the LGU level; financial monitoring of dollar disbursement; independent audit services, and impact evaluation.

Technical services for policy and financial monitoring, evaluation and audit, will be through A.I.D. direct procurement. Approximately eight person-years of long-term and 120 person-months of short-term technical services will be provided. The technical services contract for policy monitoring will include funds for short-term studies of policy and administrative issues that arise during Program implementation. These studies may be used to identify options for overcoming implementation problems or modifying policy changes to expedite implementation.

C. Grants Program

This component is to enable various local and non-governmental organizations to respond quickly to problems and opportunities that may emerge during Program implementation. Grants may be made to finance activities such as: (a) management studies, (b) in-country, third-country and U.S. observation and information exchange programs, and (c) data banking, including a local government finance information system from the LGU up to the central level, (d) fora on legislative issues, (e) NGO monitoring of LGU's, and (f) support for the League of Leagues and its members.

13

The grant program will be provided through a cooperative agreement between A.I.D. and a Philippine non-governmental organization, which will provide subgrants to appropriate organizations. DLG will approve the terms of reference for the cooperative agreement, and will play a key role in the approval of subgrants.

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

Development at regional and local levels constitutes one of the major efforts of the GOP toward economic recovery and long-term growth. The primary rationale of the Program is that local development is severely constrained by the lack of resources, authority and capability at the local government level. It is anticipated that increased funding for LGUs will result in development projects such as infrastructure and public services which are important for local growth. With more control and authority over resources, LGUs are expected to be more responsive to local needs, and to have greater accountability for the efficient delivery of public services. Increased capability of LGUs is required to ensure the effective use of increased authority and resources, and to improve the ability of LGU's to generate revenue at the local level.

The GOP will provide funding for specific activities aimed at decentralization to meet the objectives of the Program. Examples of such contributions include: incentive fund grants to be provided to the priority provinces (approx. P400 million), and capacity building funds

to be administered by the LGA (approx. ₱225 million), percentage increases to IRA contributions, and funds for expansion of property tax improvement activities.

B. Policy Reform

LDAP will support decentralization through policy changes in the following four strategic areas:

- increasing discretionary resources for LGUs from national sources, improving local taxing authority and revenue generation, and removing mandatory restrictions/appropriations over local funds and budgets;
- increasing LGU administrative authority by transferring major national agency activities, personnel, funds for the delivery of basic services, and local control over project development and implementation;
- improving LGU capacity to manage increased resources and authority, with attention to environmental issues, through training programs and human resource development; and
- increasing the private sector role in local development and the delivery of basic services.

The policy changes over the life of the Program that have been mutually agreed between the GOP and A.I.D. appear as Attachment 1 to this Program Description, Annex 1.

As to implementation arrangements, the Department of Finance (DOF) will take the lead on the aspect of the fund disbursement while the National Economic and Development Authority (NEDA) will take the lead in the monitoring of GOP performance against the agreed-upon benchmarks. An

interagency group composed of representatives from the GOP Departments participating in the program will meet at least twice a year to review progress towards implementation actions and performance indicators. NEDA will lead the review, along with representatives from DOF, Department of Budget and Management (DBM), the Department of Local Government (DLG), Environment and Natural Resources (DENR) and Public Works and Highways (DPWH) as appropriate. Technical assistance funds may be used for studies of certain policy and administrative issues that arise during the reviews.

Periodic negotiations between A.I.D., DOF and NEDA will result in mutual agreements concerning any modifications to the performance indicators for the ensuing year. During reviews of progress and matters affecting the 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. In addition, the representatives of the Parties named in the text of the Agreement may at any time agree to adjust the implementation actions and performance indicators as appropriate if there are changed circumstances or other conditions that would significantly affect Program implementation.

It is anticipated that U.S. \$45 million will be made available for performance-based disbursements, subject to the availability of funds for this purpose and mutual agreement of the Parties, based on satisfactory performance in meeting the performance benchmarks in the policy matrix and other conditions precedent as specified in the Agreement. An initial disbursement of approximately U.S. \$10 million is planned in calendar year 1990, with second and third disbursements planned for U.S. \$17.5 million each in 1991 and 1992.

C. Monitoring and Evaluation

For program assistance, monitoring and periodic evaluation are essential to assess progress toward policy benchmarks and indicators. In addition to the monitoring performed by the technical assistance contractors, an interim evaluation of the Program may be scheduled. An impact evaluation will be conducted near the end of the Program.

D. Audit

Audit of A.I.D. programs is primarily the responsibility of A.I.D.'s office of the Inspector General. However, USAID may also contract unilaterally for a non-federal audit using Program funds.

E. 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.

LOCAL DEVELOPMENT ASSISTANCE PROGRAM
Policy Implementation Matrix

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	I M P L E M E N T A T I O N		
			YEAR 1 FIRST TRANCHE	YEAR 2 SECOND TRANCHE	YEAR 3 THIRD TRANCHE
I. STRATEGY: SUPPORT IMPROVED LEVELS OF DISCRETIONARY RESOURCES FOR LOCAL GOVERNMENT UNITS					
1. Increased discretionary resources for LGUs from national sources	a. Increase IRA appropriations by a minimum of 100% over the 1989 level at the end of the Program. IRA to include STA and LGRSF throughout the entire Policy Implementation Matrix.	Increased level of IRA appropriation.	Increased 1990 IRA appropriation by 40% for LGUs over 1989 appropriation.	GOP (DLG/DBM) proposed full 20% IRA share to LGUs in 1991 GAA, using 3rd prior year as basis, provided that GAA allows greater than 25% increase over the previous year. However, the minimum increase shall be at least 25% over the previous year.	GOP (DLG/DBM) proposed 25% IRA share to LGUs in 1992 GAA, using 2nd prior year as basis, provided that the GAA allows greater than 25% increase over the previous year. However, the minimum increase, without legislative change, shall be at least 25% over the previous year.
	b. Increase discretionary use of resources available to LGUs by removing restrictions on its use.	Increase discretionary use of resources available to LGUs by removing contributions to PC/INP and hospitals.	Removal of contributions to PC/INP and hospitals in 1990 GAA.	GOP (DLG/DBM) proposed removal of contributions to PC/INP and hospitals in 1991 GAA.	GOP (DLG/DBM) proposed removal of contributions to PC/INP and hospitals in 1992 GAA.

LGU - Local Government Unit; IRA - Internal Revenue Allotment; GAA - General Appropriations Act; DLG - Dept. Local Government; DOF - Dept. of Finance; PC/INP = Philippine Constabulary/Integrated National Police; NALGU - National Assistance to Local Govt. Units; MOA - Memorandum of Agreement; LDC - Local Development Council; RDC - Regional Development Council; LGA - Local Government Academy; GOP - Government of the Philippines; LGRSF - Local Government Revenue Stabilization Fund; STA - Specific Tax Allotment; EIA - Environmental Impact Assessment; DENR/EMB - Department of Environment & Natural Resources/Environmental Management Bureau; RFPF - Regional Physical Framework Plan; NEDA-NLUC - National Economic & Development Authority/National Land Use Committee.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	T I M E T A B L E		
			YEAR 1 FIRST TRANCHE	YEAR 2 SECOND TRANCHE	YEAR 3 THIRD TRANCHE
2. Increased locally-generated discretionary revenue.	c. Release full IRA appropriations and other allotments promptly.	Achievement of uniformity between IRA appropriations and actual releases. in accordance with established guidelines.	Released minimum of 95% of 1989 IRA appropriations to LGUs.	Released minimum of 95% of 1990 IRA appropriations to LGUs excluding amounts intended for special allotments of newly created LGUs.	Released minimum of 95% of 1991 IRA appropriations to LGUs excluding amounts intended for special allotments of newly created LGUs.
	d. Continue pilot decentralization program	Increased number of provinces participating in the pilot program.	Increased level by 14 new pilot decentralization provinces, bringing total to 19 provinces.	Increased level by 6 new pilot provinces, bringing total to 25 provinces.	Increased level by 6 additional pilot provinces, bringing total to 31 provinces.
	a. Improve collection performance for real property tax.	Improvement in tax collection efficiency of LGUs.	Increased national total real property tax collections by 37% over 1988 RPT collections.	Increased national total real property tax collection by at least 50% in 1990 over 1988 RPT collections.	Increased national total real property tax collection by at least 80% in 1991 over 1988 RPT collections.

19

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	T I M E T A B L E		
			YEAR 1 FIRST TRANCHE	YEAR 2 SECOND TRANCHE	YEAR 3 THIRD TRANCHE
		General/Partial revaluation of property.		Issuance of DOF Circular providing Provincial/City and Municipal Assessors guidelines in the conduct of the revaluation of property assessments.	
		Expanded real property tax mapping and records improvement activities.	GOP (DOF/DBM) included P40M in 1991 GAA for submission to Congress to continue RPTA projects in Region V and initiate RPTA activities in one (1) new region.	Initiated RPTA project implementation in the remaining 59 municipalities of Region V. DOF initiated RPTA implementation activities in one (1) new region. GOP (DOF/DBM) proposed P110M for continuing RPTA projects plus two (2) new regions for 1992 GAA.	RPTA project implementation in the remaining 59 municipalities of Region V at least 50% completed. DOF initiated RPTA implementation activities in two (2) additional new regions, bringing total number of regions to three. GOP (DOF) proposed sufficient funding for continuing RPTA projects in ongoing regions plus at least one new region for 1993 GAA.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	I M E T A B L E		
			YEAR 1 FIRST TRANCHE	YEAR 2 SECOND TRANCHE	YEAR 3 THIRD TRANCHE
II. STRATEGY: SUPPORT GREATER ADMINISTRATIVE AUTHORITY FOR LGUs					
1. Increased LGU decision-making authority.	a) Delegate to LGUs national department functions, personnel, funds and corresponding authorities not needing legislative action.	Issue policies and implementing guidelines to delegate those national department functions, budgets and corresponding authorities that do not require legislative action, to the pilot provinces, including secondment of national department personnel.	Executed MOAs between/ issue memo circulars to 5 national departments and 5 pilot decentralization provinces to delegate functions, responsibilities, and corresponding authorities that do not require legislative action.	Continued delegation process to cover additional 14 provinces, bringing total number of provinces to 19.	Continued delegation process to cover additional 6 provinces, bringing total number of provinces to 25.
III. STRATEGY: SUPPORT INCREASED CAPACITY BUILDING FOR LGUs					
1. Increased capacity of LGUs to manage increased resources effectively.	a. Implement LGU capacity building program.	Provide funds for LGU capacity building.	Provided P75M in 1990 for capacity building program of LGA.	Continued funding of capacity building program coordinated or administered by the LGA.	Continued funding of capacity building program coordinated or administered by the LGA.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	T I M E T A B L E		
			YEAR 1 FIRST TRANCHE	YEAR 2 SECOND TRANCHE	YEAR 3 THIRD TRANCHE
2. Improved capacity of LGUs to incorporate environmental management in their local development plans, to review Environmental Impact Statements and to participate in environmental monitoring.	a. Train local planning officers in environmental planning and monitoring and basic EIA process. Update guidelines on land use planning.	Local planning officers from participating LGUs are trained on environmental planning/monitoring & land use planning.	DENR prepared Framework Action Plan; selected pilot provinces; and drafted training program.	DENR formulated detailed training design.	
		Selected LGUs able to prepare environmental management plans, as well as revise land use plans as components of their local development plans.		NEDA-NLUC prepared the basic guidelines for land-use planning based on RPPF.	At least five (5) LGUs prepared the environmental management components of their local development plans as well as revise their land use plans with the process documented for replication.
		Guidelines for local level monitoring formulated; environmental monitoring at the local level by selected LGUs.		DENR/EMB formulated guidelines and identified parameters for local level environmental monitoring.	Completion of pilot testing and fine tuning of methodology in one (1) LGU.
		Selected LGUs able to conduct Environmental Impact Assessment for project financed activities in cooperation with the DENR.		Prepared training design.	Conducted training and actual EIA in at least 3 provinces by the PPDO; documented process for replication purposes.

IV. STRATEGY: SUPPORT INCREASED PRIVATE SECTOR ROLE IN LOCAL DEVELOPMENT

1. Increase private sector delivery of basic services.	Encouragement of the private sector in the delivery of basic services.	Adoption of plan to improve private sector delivery of basic services.	DLG issued policy and implementation guidelines for testing private sector delivery of basic services such as health services, public markets and contract maintenance of provincial and municipal roads, among others.	Conducted pilot testing of private sector delivery of some basic services in a total of 5 municipalities in the pilot decentralization provinces.	Implemented private sector delivery of some basic services in 19 municipalities of the pilot decentralization provinces.
--	--	--	---	---	--

Annex 1
Attachment 2

Illustrative

FINANCIAL PLAN
(\$000)

<u>Component</u>	<u>Obligations</u> <u>as of FY 1990</u>	<u>Future Years</u> <u>Anticipated^{a/}</u>	<u>Total</u>	
	<u>A.I.D.</u>	<u>A.I.D.</u>	<u>A.I.D.</u>	<u>G.O.P.</u>
Policy Reform	\$40,022	\$4,978	\$45,000	\$16,700 ^{b/}
Grants Program	2,500	-	2,500	-
Monitoring/Technical Services	2,000	-	2,000	-
Evaluation	165	-	165	-
Audit	35	-	35	-
Contingency	<u>298</u>	<u>2</u>	<u>300</u>	<u>-</u>
Total	<u>\$45,020</u>	<u>\$4,980</u>	<u>\$50,000</u>	<u>\$16,700</u>

^{a/} Future obligations are subject to the availability of funds and mutual agreement of the parties to proceed.

^{b/} \$1 = P25. The GOP contribution is based upon the Grantee's funding for incentive grants to pilot provinces and a capacity building funds to be administered by the LGA. This contribution may also include costs borne on an in-kind basis.

23

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.

-24-

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;

(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 Parties 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.

25

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.

-jlb