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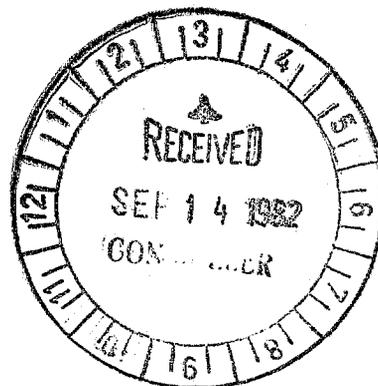
**GRANT AGREEMENT
FOR THE
RURAL ENERGY DEVELOPMENT PROJECT
(492-0375)**

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A.I.D. Project No. 492-0375



PROJECT
GRANT AGREEMENT
BETWEEN
THE REPUBLIC OF THE PHILIPPINES
and the
UNITED STATES OF AMERICA
for the
RURAL ENERGY DEVELOPMENT PROJECT
(492-0375)

USAID/PHILIPPINES
DEVELOPMENT INFORMATION CENTER

Dated: August 31, 1982

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PROJECT GRANT AGREEMENT

Dated: August 31, 1982

Between

The Republic of the Philippines ("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 Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project.

Section 2.1. Definition of Project. The Project, which is further described in Annex I, will consist of the development of wood fired power plants, the use of gasifiers for irrigation, and charcoal production. A.I.D. assistance to the Project will be in the form of direct funding of foreign exchange costs and periodic dollar transfers in exchange for and in support of the Philippines' additional Project efforts to use charcoal and wood as a fuel substitute by using, for agreed local currency costs of the Project, an amount of pesos at least equivalent to the periodic dollar transfers of the Grant. Annex I, attached, amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex I may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this Agreement.

Section 2.2. Incremental Nature of Project.

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

Article 3: Financing.

Section 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, 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 Eleven Million United States ("U.S.") Dollars (\$11,000,000.00) ("Grant").

The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and to support local currency costs, as defined in Section 6.2, of goods and services required for the Project.

Section 3.2. Grantee Resources for the Project.

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

(b) In addition to the pesos provided by the Grantee in exchange for and supported by periodic collar transfers under the Grant, the resources provided by the National Electrification Administration and Farm Systems Development Corporation on behalf of the Grantee for the Project will be not less than the equivalent of U.S. \$21,108,000, including costs borne on an "in-kind" basis.

Section 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is December 31, 1990, 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 or supported by the Grant will have been performed, all transfers of the Grant will have been performed, and all goods financed under or supported by the Grant will have been furnished for the Project as contemplated in this Agreement.

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

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the 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 Project Implementation Letters, were not received before the expiration of said period.

Article 4. Conditions Precedent to Disbursement.

Section 4.1. Disbursements in Support of Local Currency Activities. Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, in support of local currency activities, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. evidence that the pesos equivalent, at the date of transfer, to the dollar amount of the disbursement has been appropriated and allotted to the Ministry of Human Settlements account from which peso disbursements for local cost implementation of this Project will be made.

Section 4.2. First Disbursement for or in Support of the Wood-Fired Power Plant Component. Prior to the first disbursement under the Grant, or to the issuance of documentation pursuant to which disbursement will be made, for or in support of the wood-fired power plant component, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. an executed agreement between the Ministry of Human Settlements and the National Electrification Administration (NEA) for

NEA to implement this component, the subordinate agreement format between NEA and the Rural Electric Cooperatives, and the subordinate agreement format between the Rural Electric Cooperatives and the farmers' associations supported under this Project.

Section 4.3. First Disbursement in Support of the Gasifier Component. Prior to the first disbursement under the Grant, or to the issuance of documentation pursuant to which disbursement will be made, in support of the gasifier component, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. an executed agreement between the Ministry of Human Settlements and Farm Systems Development Corporation (FSDC) for FSDC to implement this component, and the subordinate agreement format between FSDC and the Integrated Service Associations supported under this Project.

Section 4.4. First Disbursement in Support of the Charcoal Production Component. Prior to the first disbursement under the Grant, or to the issuance of documentation pursuant to which disbursement will be made, in support of the charcoal production component, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) an executed agreement between the Ministry of Human Settlements and Farm Systems Development Corporation (FSDC) for FSDC to implement this component, and the subordinate agreement format between FSDC and the Charcoal Production Associations (CPA) supported under this Project;

(b) the implementation plan establishing the feasibility and planning requirements necessary to the creation of each CPA or group of CPAs; and

(c) the plan for the review and evaluation of those CPAs which do not have pre-established sources to purchase their charcoal (i.e., those CPAs that come under the third priority category).

Section 4.5. Notification. When A.I.D. has determined that the conditions precedent specified in Sections 4.1, 4.2, 4.3 and 4.4 have been met, it will promptly notify the Grantee.

Section 4.6. Terminal Dates for Conditions Precedent.

There shall be no terminal dates for meeting the conditions specified in this Article. However, if in the sole opinion of A.I.D., it is apparent that any of the conditions will not be met within a reasonable time, A.I.D., at its option, may cancel the then undisbursed balance of the Grant allocated for such component of the Project, to the extent not irrevocably committed to third parties, and terminate this Agreement, or relevant portion thereof, by written notice to the Grantee.

Article 5. Special Covenants.

Section 5.1. Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

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

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

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

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

Section 5.2. Financial Support. The Parties recognize and agree that the undertaking in Section 3.2 for the National Electrification Administration to provide certain resources required to carry out the Project (in addition to the Grant) specifically includes financial contribution requirements to the farmers' associations via the Rural Electric Cooperatives; and that the undertaking for the Farm Systems Development Corporation to provide resources required to carry out the Project (in addition to the Grant) specifically includes financial contribution requirements to the charcoal production associations and the integrated service associations.

Section 5.3. Land Rights. The Grantee agrees that it will ensure appropriate land rights (by sale, lease, etc.) have been obtained by each tree farming association supported under this Project before disbursing any financial assistance to such association.

Section 5.4. Tax Exemptions. The Grantee covenants that, in reference to Section B.4(b) of Annex II, the two principal implementing agencies of this Agreement, Farm Systems Development Corporation and the National Electrification Administration, have certain tax-exempt status for its service contracts or commodities financed under this

Agreement. Should this change and for any organization which does not have such status, the Grantee agrees that all necessary arrangements will be made to ensure that funds other than those provided by the Grant are adequately budgeted so as to avoid any delay in project implementation due to the imposition of taxes, tariffs, duties or other such levies.

Section 5.5. Local Cost Activities. The Grantee agrees that the local cost activities supported by U.S. Dollar Transfers are an integral part of the Project. Accordingly, it agrees: (a) to the A.I.D. review and approval procedures contained in Annex I and elsewhere in the Agreement; (b) to report on the local currency uses in quarterly management and financial reports in the format provided by Project Implementation Letter; and (c) to allow audit and other inspection of the completion and accomplishment of the agreed-upon Project elements financed under the Project and supported by the transfer of U.S. dollars. The Parties understand that the Grantee is also providing funds not directly supported by U.S. Dollar transfers which are not covered by this provision.

Article 6: Procurement Source.

Section 6.1. Foreign Exchange Costs. Disbursements pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the United States (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such

goods or services) ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b), with respect to marine insurance.

Section 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 will be transfers to the Treasury of the Grantee available as free foreign exchange. In exchange for such transfers, the Grantee agrees to use its own appropriated local currency to finance costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in the Republic of the Philippines ("Local Currency Costs").

Article 7: Disbursement.

Section 7.1. Disbursement for Foreign Exchange Costs.

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

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

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

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

Section 7.2. Disbursement in Support of Local Currency Costs.

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

(b) A.I.D. shall annually (or more frequently, if requested) transfer U.S. Dollars to the Treasury of the Republic of the Philippines for its use as free foreign exchange, in an amount equivalent to the estimated local currency requirements necessary to carry out the Grantee-financed activities agreed upon for the ensuing

year (or shorter period as mutually agreed-to). In exchange for this U.S. Dollar transfer, the Grantee agrees to promptly authorize the Ministry of Human Settlements to make available an equivalent amount of local currency for the purpose of financing the local cost activities to be carried out during the ensuing agreed-to period. Evidence that the local cost activities are not being financed, completed or accomplished as mutually agreed-upon may be used as a basis for not making subsequent U.S. Dollar transfers in the amount requested.

Section 7.3. Other Forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

Section 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2, 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 currency of the Republic of the Philippines at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Republic of the Philippines.

Article 8: Miscellaneous.

Section 8.1. 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 or cable, and will be

deemed duly given or sent when delivered to such Party at the following addresses:

To the Grantee:

Mail Address: Ministry of Human Settlements
University of Life Complex
Pasig, Metro Manila

Alternate address for cables: Telex Nos. 2451/2452

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 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individuals holding or acting in the offices of the Minister or Deputy Minister of the Ministry of Human Settlements and A.I.D. will be represented by the individual holding or acting in the office of the Director, United States A.I.D. Mission to the Philippines, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex I. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D.,

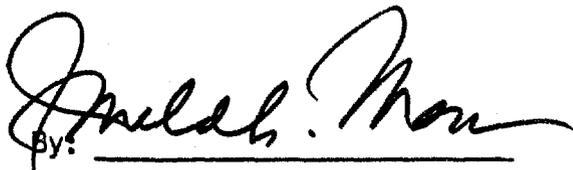
which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

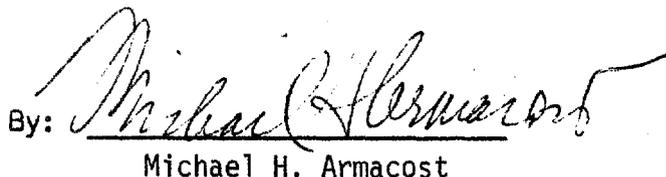
Section 8.3. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex II) is attached to and forms part of this Agreement.

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: 
Imelda Romualdez Marcos

By: 
Michael H. Armacost

Title: Minister
Ministry of Human
Settlements

Title: Ambassador
American Embassy

ANNEX I

PROJECT DESCRIPTION

I. Purpose

The purpose of the Rural Energy Development Project Grant is to provide funds, resulting from the amended Military Bases Agreement of 1947, to assist the GOP with the economic and environmentally sound production and use of biomass energy resources and conversion technologies. This assistance will support the GOP's efforts at energy resource diversification, reduced oil imports, and an increased availability of affordable fuels in the rural sector.

The Grant will provide funding to support the following GOP programs: (a) the NEA's wood-fired power plants; (b) the FSDC's gasifiers for irrigation; and (c) the FSDC's charcoal production. The funding will finance or support foreign and local equipment purchases, tree farm development and consultants, as outlined below. In accomplishing its purpose, the project will provide direct economic/financial benefits resulting from fuel substitution; employment and income generation; increased income transfer to rural areas; and have very positive effects on the environment.

II. Description of Project Components

There are three components within this AID-assisted rural energy project, all of which support GOP biomass production activities. Each depends on the production of wood and the conversion of that wood to energy. In the wood-fired power plant component, the wood is converted to electrical energy; in the gasifier component, wood is converted to mechanical energy to run irrigation pumps; and in the charcoal component, wood is converted to charcoal and then substituted for petroleum-based fuels for a variety of uses.

1. Wood-Fired Power Plants: NEA has established 115 rural electric cooperatives (RECs) since its creation in 1969. Through its system of RECs, it has a program to establish 70 wood-fired plants by 1987, along with the tree farms and related production facilities necessary to fuel them. As part of this program, this AID supported component will assist NEA in constructing and developing three sites in the Visayas. The proposed sites are in Bohol, Negros Occidental and Iloilo; however, sites may be changed by mutual agreement reflected in a project implementation letter. Each site will include

a 5 MW, wood-fired power plant and a tree farm to support the plant. To accomplish this, the following steps will have to be taken: (a) NEA arranges for the three proposed RECs to lease between 1,800 and 2,000 hectares of currently denuded land from the Bureau of Forestry Development (BFD) for 25 years with automatic renewal for another 25 years; (b) the three cooperatives organize Tree Farmers Associations (TFAs) of indigenous farm families located on part of this land and the TFA members elect their officers; (c) the associations are legally incorporated as distinct entities, but at the same time are an integral part of the REC; (d) the RECs, assisted by NEA's central office staff provide these families with information and assistance concerning the program concept, technical requirements, legal assistance, and a broad range of extension services needed to develop tree farms; (e) each TFA consists of approximately 10 families which manage a 100-hectare module of land. Tree farm operations are generally conducted on a four-year planting and harvesting cycle by the members of the responsible TFAs; (f) the TFAs see to the planting, maintenance, cultivation and harvesting of the unit's wood production; (g) production loans, from the GOP-financed portion of the project, are made to the TFAs by NEA through the REC. These loans are passed to the TFA members in the form of farm inputs and as payment for labor; (h) in the fourth year, the association begins harvesting and selling its wood to the cooperative and begins repayment of the production loans; (i) during the same four-year period that the tree farm is being developed, the REC borrows from NEA to contract for the construction of the power plant and for the required power generation equipment.

AID intends to finance the foreign exchange costs of the three 5 MW power plants and the services of an A&E firm to develop plant specifications, assist in procurement and supervise construction. Total AID-funded costs of the three power plants and the required A&E services associated with them is estimated at \$10.0 million. Should foreign exchange costs exceed the \$10.0 million budgeted for this component funds will be taken from the charcoal component to make up the shortfall. The GOP is financing the cost of wood production units, transportation systems, the plant and other required civil works, at an estimated cost of \$12.7 million peso equivalent. (See Project Budget).

2. Gasifiers for Irrigation: To promote the organization and support of irrigation organizations, the FSDC forms Integrated Service Associations (ISAs), each composed of about 60 farm families. FSDC provides these associations with assistance in organizing, registering, training in financial and technical matters, construction, credit, farm systems technology, and follow-on extension services. At the end of 1981, there were approximately 1,800 farmer-owned ISAs nationwide representing 94,000 farm families and covering 140,000 hectares.

FSDC has a program to convert 495 of the wholly diesel-driven pump systems to systems incorporating wood-fed gasifiers to promote energy savings. The ISAs involved in this conversion program represent about 26,000 farm families and cover an area of 46,000 hectares, requiring approximately 1,150 gasifier units (2-3 units for each pumping system). Each ISA in this component will identify an available six hectare area of land, either held by BFD, the community or private individuals, which is suitable for tree production and can be leased. In addition, the ISA will recruit new members who will comprise a Fuel Production Unit (FPU) responsible for developing and maintaining the woodlot and producing woodchips for gasifiers.

Provision of AID/MHS assistance will facilitate financing the gasifiers and woodlot development at the 495 sites, for an estimated cost of \$3.38 million peso equivalent. This is estimated to represent 49 percent of project costs. FSDC's funds will be used to finance project management, overhead, shipping, installation, engineering and contingencies estimated to cost \$3.75 million peso equivalent. ISAs, with assistance from FSDC, will be responsible for securing and leasing necessary land for the tree farms.

Procurement of gasifiers will be on a competitive basis open to U.S. and Philippine firms doing business in the Philippines and willing to accept payment in pesos.

3. Charcoal Production: The FSDC is also responsible for implementing a major GOP program to substitute charcoal for household, industrial, and agricultural consumption of petroleum-based fuels. FSDC is in the process of establishing up to 76,000 hectares of tree farms with charcoal production facilities by 1987. Over 1,300 hectares were planted in 1981. A key private sector element of this program is the formation of Charcoal Producers Associations (CPAs). Working through its provincial and Area Offices, FSDC helps to organize upland farmers, landless laborers, and other indigenous unemployed or underemployed into groups which obtain independent legal status as incorporated CPAs. During the initial phase, FSDC provides training and other assistance focused on administration, management, technical requirements for tree farms and marketing. Charcoal production training takes place in a second phase during the second and third years.

As legal entities, the CPAs are non-stock corporations. Any benefits/profits which they generate are shared equally among members. FSDC will assist each CPA lease land from the BFD on a 25-year, automatically renewable for another 25 years. Each CPA, composed of approximately 15 families, will lease and manage tree farms in units of up to 100 hectares with about five charcoal kilns. In cases where demand warrants, the unit size will be reduced.

A supervised credit program administered by FSDC will cover the costs of developing the wood production unit and the construction of kilns. In year 4, when charcoal production and sales start, the CPAs will begin their loan repayment from charcoal sales. The marketing of the charcoal will be done by the CPAs. This subproject will have three distinct markets for charcoal:

a. Industrial Uses: CPAs should market primarily to nearby industrial enterprises such as foundries, cement and ceramic plants which are substituting charcoal for imported fossil fuels; and tobacco curing, grain drying and other heat processing operations. There could be as many as 20 CPAs (about 2,000 ha.) in the same area to supply a single industrial enterprise. These CPAs are expected to enter into long-term supply contracts with the concerned enterprises, thereby having a relatively assured market for their charcoal. About 130 of the estimated 200 CPAs to be funded under this component are expected to be involved in the production of charcoal for industrial uses. The demand for charcoal by many large industries exceeds current supply in the area. Given the supply situation and the fact that supply contracts will be used, this is considered a relatively low risk market. Prior to any funding in these areas, detailed feasibility studies will be made by FSDC to look into the technical aspects and financial viability of the potential users, and market consideration.

b. Major Urban Center Uses: Approximately 50 CPAs will be located near major population centers and should have as their primary market households and medium and small scale enterprises located in these urban market centers. CPAs may market alone or group themselves together depending on projected demand. CPAs may enter into supply contracts, but their major market is expected to rely on broader demand situations fostered by the large and increasing populations. This urban market is considered more risky than the industrial charcoal market, but well within acceptable limits. Before proceeding with project funding for a particular CPA or groups of CPAs, FSDC will perform site specific feasibility studies including demand and existing marketing structures for charcoal.

c. Rural Uses: An estimated 20 pilot CPAs will be in locations where markets are less well defined and effective demand for charcoal not developed or assured. These CPAs are expected to service small urban centers, rural and agricultural users, and households and will generally be smaller -- 20 to 100 ha. per CPA. The FSDC plans to expand this CPA network throughout the country as demand is confirmed. The smaller rural user pilot areas will provide valuable experience to determine market demand under varying conditions. While more risky than the industrial and urban center oriented CPAs, the pilot activities are considered essential for possible future program expansion.

Provision of AID assistance will facilitate financing the costs associated with tree farm development and construction of the kilns on a level equivalent to 195 modules of 100 hectares each. This is estimated at 71 percent of the total cost or \$11.37 million peso equivalent. FSDC's capital funds will finance organizational and project management overhead costs plus contingencies which represent the remaining 29 percent or \$4.61 million peso equivalent. The final funding level for this component, both U.S. and GOP, will be determined by the final funding level of the wood-fired power plant component.

III. Project Implementation

A. General

The wood-fired power plants component, which finances the foreign exchange costs of imported equipment and consultants, will use standard AID financing and procurement procedures. The two local cost components (charcoal and gasifiers) will use FSDC implementation procedures, financing procedures, procurement, monitoring and reporting. In support of local costs, AID will provide dollars to the GOP in exchange for the government using its own budgeted resources to carry out the agreed upon projects set out herein above and provide the agreed upon outputs.

B. Implementation Arrangements

1. Management Advisory Committee: The Management Advisory Committee (MAC) provides general program and policy guidance to the ESF program. The MAC, composed of eight cabinet ministers is chaired by the Minister of Human Settlements. The MAC has a Secretariat to conduct day-to-day operations and represent the GOP in working with AID and the various implementing agencies (in this case NEA and FSDC). The Secretariat provides continuing liaison with implementing agencies and, working closely with AID, insures that targets are met in accordance with the Project Agreement. This involves preparing appropriate project documentation, monitoring project progress, arranging financing, trouble-shooting design and implementation problems, sponsoring GOP project audits and evaluations, and providing a variety of other staff level functions for the MAC.

2. NEA and FSDC: NEA is the implementing agency for the wood-fired power plants project and FSDC is the implementing agency for the gasifier and charcoal projects. NEA and FSDC will implement their respective projects in accordance with standard GOP procedures and regulations, and the terms and conditions of the Project Agreement.

3. Agency for International Development: Under the foreign exchange procurements of this project, regular AID procurement procedures will be used.

AID will monitor progress for the local inputs primarily to see that output targets are met in accordance with the Agreement described herein, that tree farms and woodlots are established as agreed, and that charcoal units and gasifiers are put into operation as agreed. AID will conduct site inspections on a sample basis. The major implementation responsibility, however, will rest with the MAC Secretariat, which will monitor day-to-day implementation, and the two implementing agencies.

C. Approvals/Reporting

1. Wood-Fired Power Plants: AID and MHS will approve the three sites, site development plans, site development progress before power plant contracts are awarded, procurement procedures, major host country tender documents and contracts and change orders to the major contracts. Final acceptance will also be approved by AID and MHS.

The NEA will submit detailed quarterly progress and financial reports to MHS and AID. Information to be included in the reports will be provided in implementation letters.

2. Gasifiers for Irrigation: AID and MHS will approve standard tender documents for the procurement of gasifiers including specifications and the final awards. AID and MHS will additionally approve project site listings and schedules for implementation at intended sites.

FSDC will submit quarterly progress and financial reports to MHS and AID. Information to be included in the reports will be provided in implementation letters.

3. Charcoal: AID and MHS will approve an FSDC prepared handbook for performing CPA feasibility studies (technical, financial and marketing). Site specific feasibility studies will be reviewed and approved by the FSDC Board prior to their subproject approval. MHS and AID may at any reasonable time spot check feasibility studies for approved projects to insure compliance with the feasibility study handbook and FSDC's project approval process.

FSDC will submit quarterly progress and financial reports to AID and MHS. Information to be included in these reports will be provided in implementation letters.

D. Retroactive Financing

FSDC has already started its gasifier and charcoal programs. Costs incurred after October 1, 1981 for subprojects meeting requirements of this project will be considered by the MHS and AID for peso reimbursement of allowable costs incurred. Any subproject

receiving retroactive financing will have to meet full feasibility criteria.

Reimbursement will be from the peso appropriated funds for the project. This will be considered in determining the initial dollar disbursements under the project.

E. Loans/Repayments

The Rural Electric Cooperatives, Integrated Service Associations and Charcoal Producers Associations will be provided with necessary resources in cash and/or in kind on a loan basis by NEA and FSDC partly supported by the project and partly by NEA and FSDC counterpart funding. These will be repayable in pesos. Amortization payments from ESF supported subprojects flow back to the Philippine Treasury General Fund. This Project Agreement does not restrict the use of these peso re-flows to any particular activity(ies).

IV. Evaluation PLAN

A. General: Because of the valuable lessons learned from this project, a rather comprehensive evaluation plan will be implemented by AID and the Secretariat with cooperation from NEA and FSDC. Given the nature of the three project components, a good deal of information can be obtained using routine records, monitoring reports, and simple field observation techniques.

B. Process Evaluation: A process evaluation will be conducted after: (1) thirty TFAs for the wood-fired power plants have been operating for one year or about one and one-half years after project agreement execution; (2) one hundred gasifiers have been operating and fifty ISAs have been growing trees to fuel gasifiers for one year; and (3) fifty CPAs have been organized and growing trees for one year. The process evaluation will take place 18 to 30 months after project implementation starts. It will examine how the project is being implemented, identify problems and make recommendations for corrective actions. Approximately \$60,000 is included for this evaluation effort, which will involve a five to seven week team effort. The team should have experience in such fields as socio-cultural aspects of Philippine rural development, social forestry, nonconventional energy, economics, and the operation of local and national Filipino institutions. Suggested methodology includes review of relevant documents, selected field observations, and interviews with appropriate officials and local project participants.

C. Impact Evaluations: Approximately \$150,000 is budgeted for impact evaluations of each of the three components. Impact studies will focus on achievement of stated project purposes, the economic

viability and competitiveness of the technologies used, the major lessons learned which can be used in future development efforts, and specific information needs at the time of the evaluation.

1. Wood-Fired Power Plants: To be conducted after at least two of the three power plants have been in commercial operation for one year, i.e. roughly six to seven years after start of implementation. If an impact evaluation is required sooner, a study will be made of other units already on-line. Specific issues include: Are tree farms and power plants producing at expected capacities? Why or why not? Are TFAs and RECs operating effectively; how can they be improved?

2. Gasifiers: To be conducted after five hundred gasifiers have been operating using woodchips from the FPU woodlot for one year, i.e., roughly four years after the start of implementation. Specific issues include: Are gasifiers being operated and maintained effectively and efficiently? How can existing problems be resolved?

3. Charcoal Production: To be conducted after at least 75 CPAs have been harvesting trees, and producing and marketing charcoal for at least six months, i.e., roughly five to six years after the start of implementation. Specific issues include: Are CPAs viable institutions? Have they obtained adequate access to land? Can they grow trees, operate kilns, and sell charcoal at a profit? Are they repaying their loans?

D. Other Evaluation Activities: Because of the importance of properly evaluating this innovative project, an additional \$43,000 is reserved for other evaluation related activities which may be needed, such as baseline data collection, special surveys, investigation of critical issues which may arise, and publication and dissemination of evaluation findings.

PROJECT BUDGET ^{1/}
(\$000)

<u>Source</u>	<u>Financed/Sup-</u> <u>ported w/ESF</u>	<u>Implement-</u> <u>ing Agency</u>	<u>Total</u>
1. <u>Wood-Fired Power Plants</u>			
A. <u>Grant Funding</u>			
1. Imported Equipment	9,000		
2. A&E Firms and Consultants	1,000		
B. <u>NEA Contribution</u>			
1. Civil Works		2,079	
2. Local Equipment		234	
3. Tree Farms & transport		7,830	
4. A&E, Local		564	
5. Contingencies/ Price Evaluation		<u>1,866</u>	
Subtotal	<u>10,000</u>	<u>12,573</u>	22,573
2. <u>Gasifiers for Irrigation</u>			
A. <u>MHS Funding^{2/}</u>			
1. Gasifier Units	2,156		
2. Woodlots	1,221		
B. <u>FSDC Contribution</u>			
1. Equipment, shipping, installation, & eng'g supervision		2,264	
2. Woodlot program management		<u>1,656</u>	
Subtotal	<u>3,377</u>	<u>3,920</u>	7,297
3. <u>Charcoal Production</u>			
A. <u>MHS Funding</u>			
1. Tree Farms,, including kilns (212 modules)	11,370		
B. <u>FSDC Contribution</u>			
1. Program Management		1,567	
2. Cost Escalation		<u>3,048</u>	
Subtotal	<u>11,370</u>	<u>4,615</u>	15,985
4. <u>Project Evaluation</u>	<u>253</u>		<u>253</u>
PROJECT TOTAL	<u>25,000</u>	<u>21,108</u>	<u>46,108</u>

^{1/} AID's funds are provided on an incremental basis, subject to the availability of funds for this purpose and to the agreement of the parties to proceed.

^{2/} For the local components, AID will support the amounts budget as MHS contribution by annual dollar transfer.

ANNEX II - PROJECT GRANT STANDARD
PROVISIONS ANNEX FOR ECONOMIC SUPPORT FUND PROJECTS

Definitions: As used in this Annex, the "Agreement" refers to the Project 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: Project Implementation Letters.

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

Article B: General Covenants.

Section B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

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

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

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

Section B.3. Utilization of Goods and Services.

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

(b) Goods or services financed under the 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.

Section B.4. Taxation.

(a) This Agreement and the Grant will be free from any taxation or fees imposed under 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 transactions 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 Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

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

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

(b) Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant or supported by transfers of 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 Project toward completion; and

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

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 Project and the discharge of responsibilities under this Agreement; and

(b) That it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

Section B.7. Other Payments. 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.8. Information and Marking. The Grantee will give appropriate publicity to the Grant and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions.

Section C.1. Special Rules.

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

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

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

(d) 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 Project Implementation Letter.

Section C.2. 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 C.3. 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:

(1) any plans, specifications, procurement or construction schedules, contracts, or 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 A.I.D. on preparation; and

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

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

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

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

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

Section C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Grant, the

Grantee will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

Section C.6. Shipping.

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

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

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

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

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

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

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

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

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

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

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

Section C.7. Insurance.

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

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

(2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Grantee (or government of Grantee), by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Grantee financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Grant imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Grantee under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Grantee for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

Section C.8. U.S. Government-Owned Excess Property. The Grantee agrees that wherever 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 Project.

Article D: Termination; Remedies.

Section D.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 Project 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 off-loaded in ports of entry of Grantee's country.

Section D.2. Refunds.

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

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

(c) U.S. Dollar disbursements of the Grant which are related to the local cost component of the Project are transferred to the Grantee in exchange for certain promises, covenants and conditions of implementation which the Grantee has agreed to follow. Evidence of material violation of the terms of this Agreement or of the use of the Grantee's own resources supported by transfers of the Grant for activities or in ways not agreed to in this Agreement may, at the sole option of A.I.D., be the cause for a refund of all or any part of the amount of such disbursements in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

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

(e) Any refunds under subsection (a), (b), or (c), or (2) any refund to A.I.D. from a contractor, suppliers, bank or other third party with respect to goods or services financed under the Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the Project, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

(f) 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 Project will be returned to A.I.D. in U.S. Dollars by the Grantee.

Section D.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.

Section D.4. 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 which A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.