

PDBAT 970

Tofgren

AID Project Number 617-0104

**OFFICIAL PROJECT
DOCUMENT**

PROJECT
GRANT AGREEMENT
BETWEEN THE
REPUBLIC OF UGANDA
AND
THE UNITED STATES OF AMERICA
FOR
REHABILITATION OF PRODUCTIVE ENTERPRISES
("RPE")

Date: September 28, 1984

PROJECT GRANT AGREEMENT

Dated September 28, 1984

Between

The Republic of Uganda ("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 the Project. The Project, which is further described in Annex 1, consists of assistance to improve income of the rural poor and increase agricultural production in Uganda through increased productive investment in agricultural enterprise. The Project will strengthen the capacity of both borrowers and lenders in Uganda for productive investment in agriculture through provision of (a) technical assistance and training for improved managerial and technical capacity of both groups, and (b) start-up lending capital for priming of the credit systems to be strengthened and to enhance experience and capital mobilization capability necessary for self-sustained development in the future. Annex 1, 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 1 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) 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.

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

ARTICLE 3

Financing

SECTION 3.1. The Grant. To assist the Grantee to meet the cost of carrying out the project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant to the Grantee under the terms of this Agreement not to exceed Six Million United States (U.S.) Dollars (\$ 6,000,000) ("Grant"). This Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services 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) Unless otherwise agreed by AID, the Grantee will provide or cause to be provided, from funds other than those provided under the Grant, no less than one third of the total amount of loan financing provided to private enterprises by government intermediate credit institutions participating in the Project. It is estimated that this financing will total not less than the equivalent of \$3,250,000 over the life of the Project. Implementing agreements with private intermediate credit institutions will provide that each such institution will provide or cause to be provided from funds other than those provided under the Grant no less than one third of the total amount of loan financing provided by that institution under the Project, unless otherwise agreed by BOU and AID. Private enterprises seeking financing under the Project will be required by ICI's to contribute equity investment and other resources to the sub-project being financed to the maximum extent possible commensurate with the nature of the sub-project and the financial resources of the enterprise.

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is September 30, 1989, 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 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 services performed subsequent to the PACD or for 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. First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., a statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

Section 4.2. Additional Disbursement.

(a) Disbursement for Technical Assistance. Prior to disbursement under the grant for technical assistance, or to the issuance by AID of documentation pursuant to which disbursement will be made for such assistance, the grantee shall, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID, evidence of:

(1) the establishment of a high level, inter-agency project committee to provide for national oversight of the project's execution and to serve as a vehicle for policy level intervention when necessary. The evidence submitted should include terms of reference and operating procedures for the committee. And,

(2) the establishment of, or intention to establish within a satisfactory time period, a consolidated agricultural projects appraisal department within the Uganda Development Bank which will draw from the existing crops and livestock departments.

(b) Disbursement for Lending. Prior to disbursement under the grant for lending, or to the issuance by AID of documentation pursuant to which disbursement will be made with respect thereto, the Grantee shall, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

(1) evidence of an established rediscount facility in the Bank of Uganda, to be utilized by project intermediate credit institutions (ICIs), particularly the Uganda Development Bank, for securing the local currency counterpart contributions required for the sub-lending program. This evidence shall include the terms, conditions, and operating procedures for access and drawdowns from this facility.

(2) evidence of establishment of a special account for deposit of repayments by ICI's of project loans and rules and procedures for the use of funds so deposited that assure that such funds are relent for purposes in general accord with the objectives of the project and project lending criteria.

(3) evidence of the development of an officially approved operations manual for the lending component of the Project including credit policy and regulations and lending criteria for ICIs, sub-borrowers, and sub-projects. This will also include:

(i) procedures for compliance with AID's environmental regulations;

(ii) evidence of the intent of the credit policy to provide for loans to sub-borrowers at positive real rates of interest (above officially established rate of inflation);

(iii) evidence of the establishment of lending policies and criteria for sub-loan and sub-borrower eligibility which will assure effective participation of the needy people in the benefits of investments to be financed by the Project. Among other things, the policy will require that only sub-project proposals that demonstrate that one or more of an illustrative list of approved benefit impacts (to be included in the presentation) will, in fact occur, will be approved. The policy will also require that the basis for approval be documented. And,

(iv) procedures for referring proposed sub-loans to AID for approval with respect to AID's project, program, policy and legal requirements.

(4) evidence of compliance with environmental analysis, review and mitigating measures and procedures outlined in project implementation letters for sub-projects to be financed by the first disbursement and agreement with respect to environmental procedures for all subsequent disbursements.

(5) a signed loan agreement with the ICI to receive the loan. This loan agreement will require that funds be re-loaned in accordance with project lending criteria and provide for terms and conditions acceptable to AID.

(6) evidence of agreement between the Government and the ICI to receive the loan establishing negotiated ongoing maximum levels of delinquency and default rates, at both ICI and sub-borrower levels, over the life of the project, which agreement shall provide that if such rates exceed the agreed upon levels (in either or both the ICI in question and the sub-borrower group) disbursements for lending through that ICI will be stopped until the GOU and AID are satisfied that the rates have dropped below the levels established and that adequate measures have been taken to avoid future occurrences of the problem. And,

(7) a statement that imported project commodities financed under the grant will be exempt from import duties and inspection fees etc.

(c) Disbursement for Phase II. Prior to the first disbursement under the grant for Phase II of the project, or to the issuance by AID of documentation pursuant to which such disbursement will be made, the Grantee shall, except as AID may otherwise agree in writing, submit to AID in form and substance satisfactory to AID:

(1) detailed plans and costs for Phase II project execution (based on the findings of the comprehensive evaluation to be carried out toward the end of Phase I in the late 1986); and

(2) evidence of government approval of a plan to establish an independent technical assistance entity by the end of the project. The evidence should indicate approval of the concept and the substance of the proposed plan for arriving at the independent enterprise. The evidence should also indicate approval of the initial establishment of the technical assistance entity under the primary technical assistance contract.

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

SECTION 4.4. Terminal date for Condition Precedent. If the condition specified in Section 4.1. has not been met within ninety (90) days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

ARTICLE 5

Special Covenants

SECTION 5.1. Sub-loan Approval. The Grantee agrees that all proposed sub-loans involving the use of financing provided under the Grant in excess of \$200,000 will be required to be submitted to AID for approval prior to the approval of the sub-loan by an ICI for financing.

SECTION 5.2. Copies of Sub-loans. The Grantee will require participating ICI's to assure that copies of all sub-loan proposals (regardless of amount of the loan sought) are promptly submitted to AID for information and monitoring purposes.

SECTION 5.3. Currency of Payment and Repayment of Loans. The Grantee agrees that, unless otherwise agreed in writing by AID, loans made available under the Project will be payable through ICI's to private enterprises in both foreign exchange and local currency in accordance with the approved loan application submitted by the private enterprise. Repayment of loans at both the ICI and private enterprise level will be entirely in local currency, the amount thereof determined, with respect to the foreign exchange loaned, in accordance with the rate of exchange prevailing at the time the foreign exchange is disbursed to or on behalf of the borrower.

SECTION 5.4. Encouragement of participation by Private ICI's. The Grantee agrees, through the Bank of Uganda, to undertake an effort to encourage participation in the project by private ICI's through the development, in consultation with such ICI's, of a lending program which combines favorable interest rates with a possible local currency loan guarantee scheme which provides an opportunity for such ICI's to earn a satisfactory return on their participation at an acceptable risk.

SECTION 5.5. Interest Rates. The Grantee agrees to review and revise interest rate ceilings in line with inflation rates.

SECTION 5.6. Encouragement of Local Production. The Grantee will make its best efforts (1) to adjust taxes and controls on the ex-factory prices of edible oil and other locally grown or produced goods in order to encourage the development of local industry and production for the Uganda market; and (2) to expeditiously resolve disputes over ownership of private enterprises seeking credit for sub-projects under the Project.

SECTION 5.7. Counterpart personnel. The Grantee covenants to use its best efforts to assure that qualified counterpart personnel are provided for all necessary positions at UDB

on a timely basis and that such personnel are retained in these positions throughout the project.

SECTION 5.8. Sub-loan Review Procedures. The Grantee will require all ICI's participating in the project to develop procedures for making sub-loans to enterprises under the project which include environmental analysis and review procedures satisfactory to AID.

SECTION 5.9. Sub-loan Agreements. The Grantee will require participating ICI's to include the following conditions/covenants in each sub-loan agreement:

(a) With respect to proposed activities producing large amounts of organic waste or organic effluents capable of exceeding the capacity of local sewage treatment plants or activities where toxic wastes or industrial effluents are expected, a covenant whereby the borrower agrees that production operation will not commence until adequate facilities for organic and toxic waste treatment are in place and whereby the borrower agrees to a right of inspection by the representatives of the ICI, BOU or AID to ensure compliance with, and the adequacy of, any environmental design requirements or environmental production facilities agreed to as part of the loan approval process; and

(b) In the case of large industrial operations which will receive loan funds in increments, a condition precedent to receipt of subsequent increments of loan funding requiring evidence that satisfactory progress has been made on installation of waste treatment facilities and verification (by initial monitoring) that the design of the facilities is adequate.

SECTION 5.10. 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.

ARTICLE 6

Procurement Source

SECTION 6.1. Foreign Exchange Costs.

(a) Except as provided in section 6.1 (b) below, disbursement pursuant to Section 7.1. will be used exclusively to finance the costs of goods and services required for the Project having, with respect to goods, their source and origin, and with respect to suppliers of goods and services their nationality in countries included in A.I.D. Geographic Code 941 (as in effect at the time orders are placed or contracts entered into for such goods and services), 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. Ocean transportation costs will be financed under the Grant only on vessels under the flag registry of the Cooperating Country and countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

(b) Notwithstanding the provisions of Section 6.1(a) above, funds may be disbursed under the Grant for the procurement of commodities by sub-borrowers of a value not to exceed U.S. \$3,000,000 having their source and origin in countries included in AID Geographic Code 899.

SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2. will be used exclusively to finance the 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 Uganda ("Local Currency Costs"). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

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 Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless 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 for Local Currency Costs.

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the grant for 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 finance such costs.

(b) The local currency needed for such disbursements may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase; or

(2) by A.I.D., (A) requesting the Grantee to make available the local currency for such costs, and (B) thereafter making available to the Grantee, through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Grantee or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available by the Grantee, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U.S. Dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b)(1) above, the amount of U.S. Dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b)(2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit.

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 this Grant are introduced into Uganda 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 Uganda at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Uganda.

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: P. O. Box 8147
Kampala

Alternative address for Cables: TELEX 61170

To A.I.D.:

Mail Address:

USAID Mission
P. O. Box 7007
Kampala, Uganda

Alternative address for Cables:

AMERICAN EMBASSY
Kampala, Uganda

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 individual holding or acting in the office of the Minister of Finance, and A.I.D. will be represented by the individual holding or acting in the office of Mission Director, USAID/Uganda, 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 8.3. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms a part of this Agreement.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the date of last signature below.

REPUBLIC OF UGANDA

THE UNITED STATES OF AMERICA

Signature: *James Kahoza*

Signature: *Irvin D. Coker*

Name: James Kahoza
Dep. Sect. to the

Name: Irvin D. Coker

Title: Treasury

Title: Mission Director

Date: 28th Sept. 1984

Date: 28 September 1984

Budget Plan Code: GD AA-84-21617-AG13
Appropriation Symbol: 72-1141021
Reservation Control No: U400404

AMPLIFIED PROJECT DESCRIPTION

Except as specifically provided herein and within the limits of the definition of the Project set forth in Section 2.1, elements of this Amplified Project Description may be changed by written agreement of the authorized representatives of the Parties without formal amendment of this Agreement.

Article I. Project Description.

A. General

The Rehabilitation of Productive Enterprises (RPE) Project is a five year effort to improve income of the rural poor and increase agricultural production in Uganda through increased productive investment in agricultural enterprise. Assistance will be provided to help in strengthening the capacity of both borrowers and lenders in Uganda for productive investment in agriculture through provision of (A) technical assistance and training for improved managerial and technical capacity of both groups, and (B) start-up lending capital for priming of the credit systems to be strengthened and to enhance experience and capital mobilization capability necessary for self-sustained development in the future. The Project's primary purpose will be improved income for the rural poor and increased agricultural production through increased investment in agricultural enterprise (primary production, marketing and other agriculturally-related operations).

The Project's objectives will be accomplished in four principal ways: (1) through the strengthening of the capabilities of public and private intermediate credit institutions (ICI's) to effectively provide and administer credit for investment in rehabilitation of agricultural enterprises; (2) by strengthening the capability of private enterprises to effectively obtain, utilize and financially manage medium and long-term credit required for enterprise development activities; (3) by providing capital for loans through ICI's to private enterprises for specific agricultural enterprise rehabilitation and development projects; and (4) through the development of data bases and the undertaking of special analyses and studies on the the nature and

characteristics of the existing credit systems and the participants therein, the constraints to agricultural enterprise development, and the feasibility of alternative means of providing credit in order to determine the most effective means of providing credit resources for and encouraging agricultural enterprise development and to adjust Project activities and/or develop new approaches to providing credit as necessary to that end.

The structure of the project is built around separate but coordinated and mutually reinforcing technical assistance packages aimed at the two key levels, credit intermediary and borrowing enterprise. Overall management and coordinating responsibility for the Project will be lodged with the USAID Project Manager's counterpart in the Bank of Uganda, the Director of the Development Finance Department.

Day-to-day implementation of the credit component of the Project and the intermediate credit institution strengthening activities will be primarily the responsibility of technical assistance contractors financed under the Grant in collaboration with management of the lead ICI, the Uganda Development Bank. The Project will be carried out in a collaborative style with a World Bank/UNDP team currently working with UDB in critical line positions to strengthen industrial lending and overall management of the institution and its operating procedures. Project financed activities in the ICI strengthening area will emphasize project development, appraisal and strengthening of the recipient enterprise. Sub-borrower assistance will be through the vehicle of a separate technical assistance (TA) entity, which will have no institutional relationship with the lender group and which is planned to eventually become totally independent. The planned structure of the project is graphically shown in the diagram in Attachment 2 hereto.

The project will be implemented in two phases, a pre-implementation phase from September 1984 to September 1986, and a main implementation phase (hereinafter referred to as "Phase II") from September 1986 to the Project Assistance Completion Date (PACD), September 30, 1989. The activities to be conducted under each phase are more specifically detailed below.

The purpose of project phasing is to provide a means for making mid-course corrections and design adjustments to respond to emerging factors and conditions which cannot be adequately predicted or analyzed at the outset. The first phase will

allow for a period of systems development, some lending for specific rehabilitation or development projects, and the acquisition of the necessary experience and analytical foundation to proceed with Phase II. Phase II will involve process, system, and institutional development, including development of the technical assistance entity as a viable, independent enterprise. A number of studies will be carried out and project lending will continue and expand to cover as complete a range as possible of project types (rehabilitation and/or expansion of existing enterprise and the creation of new ventures).

B. Detailed Description.

1. Pre-Implementation Phase (September 1984-September 1986). During this project period critical planning, preparation and gearing up of activities will take place, including contractor recruitment and mobilization, the meeting of conditions precedent, preparation of detailed work and procurement plans, etc. Analytic effort will be undertaken to revalidate and/or adjust design structure and approach as necessary in order to adopt a more flexible, efficient, less demanding and less costly vehicles and procedures for lending to target clientele (through private commercial banking channels to the extent possible) and a pilot lending effort is to be implemented with a select group of high priority sub-projects which are determined to be ready to finance in terms of established feasibility and sound investment and management plans. On the basis of the above experience, the design, structure and plan for main operational phase of the project (Phase II September 1986-September 1989) will be adjusted or reformulated as warranted.

As soon as possible following execution of the Grant Agreement, a finance and development banking specialist will be recruited and contracted to provide approximately nine (9) person months of consulting services. This specialist will assist the GOU and USAID with implementation of the following tasks which are to be accomplished under the pre-implementation phase:

- establishment of a high level project oversight committee and its groundrules;
- consolidation and restructuring of the crops and livestock departments of the UDB;

- development and approval of an operating procedures manual for project lending (including the refinement and negotiation of ICI, sub-borrower, and sub-project lending criteria);
- development of a model loan agreement to be entered into between the Bank of Uganda (BOU) and the participating ICI's;
- establishment of operating procedures for a rediscount facility in the BOU for the provision of the local currency contribution requirement for UDB lending;
- development, approval and establishment of simplified criteria and procedures for review and approval of projects, procurement, disbursement and vouchering, implementation management in general and monitoring, with special attention directed to environmental criteria and procedures;
- review, refinement and approval of an initial group of sub-projects to be financed during the pre-implementation period including the development of management plans and follow-up assistance activity for such projects from technical assistance to be supplied by the project during the main implementation phase;
- development of scopes of work and solicitation documents for the various short and long-term contracts under the project including technical assistance and training for ICI's and sub-borrowers, procurement assistance, auditing services and further analysis and evaluation; and
- evaluation of pre-implementation experience against the original design of the project and redesign of the main implementation phase to the extent warranted.

Also as part of the pre-implementation phase, arrangements will be entered into with an institutional technical assistance contractor to provide technical assistance and training services to ICI's participating in the Project. Shortly after signature of the Grant Agreement the necessary steps will be taken to negotiate a contract or cooperative agreement for the provision of these services to begin in early 1985. This assistance will extend over a period of one year in the form of one resident advisor and short term

consultancies by specialists as required in finance and credit, accounting, agro-industry and marketing, project appraisal, data collection/analysis, evaluation and training. Training will also be provided in the form of participation of various key UDB and other ICI staff members in development banking courses and on occasion, specially tailored courses to be given in Uganda. The contractor is expected to assist, in collaboration with the contract finance specialist, with the consolidation and restructuring of the combined crops and livestock departments; development of effective, streamlined project appraisal and approval procedures to be utilized during the pilot lending period; the development of improved monitoring and collection procedures; the review and approval of the initial group of sub-projects to be financed during the pre-implementation phase; the development of management plans and follow-up assistance activity for such projects from technical assistance to be provided during the main operational phase; and the planning and execution of an evaluation of the pre-implementation experience and the redesign of Phase II as warranted. The TA contractor will also conduct a detailed reassessment of the proposed operating structure and plan for the project and develop appropriate modifications for initial lending operations. It will assist with the development of a comprehensive training plan for ICI staffs and in the development of an initial baseline data collection effort for project lending operations and the installation of an ongoing data collection, analysis and reporting system to be integrated into the data management component of the Project under the main implementation phase.

2. Main Operational Phase (Phase II, September 1986-September 1989). Phase II will involve a continuation and expansion of both the institutional strengthening and lending activities begun under the pre-implementation phase.

a. ICI Strengthening Activities.

Based on the work carried out under the pre-implementation phase, the primary contract for the provision of technical assistance services for the remainder of the project will be entered into. The Chief of Party (COP) for this contract will be responsible for overall management and coordination of project activities. He will be responsible to the USAID Project Manager and will relate directly to the Ugandan project manager in the BOU and to management personnel at the ICI level. A long-term agricultural finance advisor will also be provided

under the primary contract and will be assigned to the reorganized agricultural projects department. This advisor, working as a counterpart to the Department Chief, will continue and expand the program of developing and upgrading appraisal capability within the Department in terms of economic and financial analysis, planning, funding and monitoring and supervision, and will be responsible for assuring rigorous application of both Bank and AID required sub-project eligibility criteria.

This advisor will also be responsible for assessing additional short-term technical consulting and training requirements for the Department and the related activities in the Bank. During this phase of the Project a senior Ugandan agricultural finance specialist will either be recruited or selected from existing staff by the Bank who will also serve as a counterpart to this advisor.

The agricultural finance advisor will also be responsible for assuring that adequate procurement plans are incorporated into each project and that AID procurement requirements are satisfied through coordination with a procurement services agent to be provided as part of the primary technical assistance contract or with the ICI if it is decided that the ICI will handle procurement. This advisor will also assure the continued development of the permanent data collection and processing system which will feed into the data management analytical component of the project.

b. Sub-borrower Strengthening.

The project will provide, through the primary technical assistance contract, consulting services to Ugandan private enterprises to assist them in determining the feasibility of investments and in designing projects to be presented to the participating ICI's for financing. Enterprises will also be provided with business management assistance associated with project-financed investments, some of which will be provided over an extended period of time to assure successful launching of the new operation. Personnel from these private enterprises will also be trained through management training and other short courses, observational travel, and participation in feasibility studies and project design activities.

The initial strengthening activities to be conducted under this component during Phase II will be carried out by three long term advisors (an agro/business advisor, financial analyst, and accountant) under the primary technical assistance

contract. These advisors will assist in the planning and organization of a technical assistance entity which will be staffed by these three advisors and an estimated core group of 5 Ugandan professionals specializing in such areas as financial analysis, accounting, business management, agro-industry, marketing, etc. This entity will function as a business advisory service to target enterprises and will assume responsibility for and provide the services described above.

The entity is expected to exclusively serve clients referred by ICI's participating in the Project. Services will be provided under contractual arrangements between the technical assistance entity and the client enterprise. Most of the initial costs of this entity will be financed by the project, although some modest fees may be charged. The structure and amount of such fees and the use of fees earned will be agreed to and detailed in subsequent project implementation letters.

A plan will be developed during the project for the establishment and incorporation of a private firm or non-profit organization to assume the functions of the technical assistance entity following completion of the project.

c. Lending Activities.

(1) General Structure.

It is anticipated that approximately \$10.0 million in grant funding will be provided over the life of the project for lending by ICI's directly to enterprises for specific rehabilitation and development projects. An illustrative list of the type of enterprises to be provided financing includes dairy farms (20), hatcheries (6), poultry farms (40), feed mills (10), fishing enterprises (10), mixed farms (20), and an undetermined but substantial number of smaller enterprises. It is also expected that financing will be provided for the activities of a relatively few larger enterprises long in need of rehabilitation, such as the Wankoko poultry processing plant and up to four oil mills. Exactly what portion of these will be financed in the pre-implementation phase or Phase II is difficult to predict. It is also certain that a variety of new possibilities will be developed during early years of the project for both rehabilitation and new enterprises.

Funds provided under the Project for lending will be provided by the Bank of Uganda on a loan basis to UDB and other participating ICI's for onlending on commercial terms to productive enterprises in the agricultural sector. The actual

amounts provided to and through each ICI will depend entirely on the capacity of the ICI in question to demonstrate capacity to productively absorb the resources in the form of viable packages of loan requests conforming to project lending criteria.

Contributions to the lending component by the Government of Uganda, participating ICI's and the enterprises themselves are expected to be in the form of the local currency component of the loans and equity investments. The total non-AID financed contribution requirements are estimated at \$8.2 million, of which \$3.2 million is expected to come from equity contributions and technical assistance costs from borrowing enterprises.

(2) Terms and Conditions of Loans.

Funds for sub-loans will pass through the Bank of Uganda to the UDB and participating commercial banks. The terms and conditions of lending by the BOU will have to be negotiated but should provide adequate margins to ICI's to enable them to cover expenses and earn reasonable profits. It is expected that interest rates will be in the 6-7% range and that the loans will have a 20 year term with a ten year grace on repayment of principal in order to make the loans sufficiently attractive so that participation will be as wide as possible.

The ICI's in turn are expected to lend to private enterprises at commercial market rates with terms of up to 8 years and grace periods as warranted by the projects financed, probably averaging in the vicinity of two years.

In order to protect the capital resources of the project, maximum delinquency and default rates will be established with respect to project loan funds. If actual rates move above the specified levels, further disbursements for the ICI in question will be suspended.

(3) Lending Criteria.

The lending criteria for the project are subject to further refinement and modification during the course of the project. However, certain fundamental lending criteria which are not expected to change will be utilized throughout the project.

(a) ICI Eligibility. A participating ICI must be a legally chartered bank or financial institution authorized to operate in Uganda with an established program of lending to

private enterprise. It must also be able to demonstrate adequate staff, operating procedures, and financial condition to satisfy AID as to its ability to lend responsibly under the terms of the project. It must be prepared and able to abide by AID policy, program and project criteria for the sub-borrower group. Lenders wishing to participate in the project will have to present detailed evidence, satisfactory to the BOU and to AID that they have these capabilities.

(b) Sub-borrower and Sub-project Selection. Borrowing enterprises must be Ugandan owned and controlled with their principal place of business in Uganda. Project-assisted enterprises (including cooperatives) must be in the private sector and be profit making ventures. All enterprises must be primarily operating in the agricultural sector, either in production or in processing or service activities directly linked to agriculture. Sub-projects must be labor-intensive, have clear potential for import substitution or export and provide increased markets, inputs, or service for agricultural production based on locally available inputs. In addition, sub-project proposals must demonstrate that one or more of the following benefit impacts will occur as the result of the investment:

(1) increased employment of rural or urban poor wage earners or potential wage earners (to include on or off-farm employment of small holder family members);

(2) increased income for small holder agricultural producers through improved markets and better prices for primary production and/or through reduced cost of production from lower cost farm inputs;

(3) increased availability and lower cost of basic food commodities to rural and urban poor consumers from increased domestic production;

(4) as a corollary to (3) above, improved nutrition/health of rural and/or urban poor as a result of increased availability and/or lower cost of essential food commodities required for adequate diet;

(5) increased real wages paid to under-employed/under-paid workers due to improved enterprise profitability, expanded operations, appropriate technology, etc.;

(6) more efficient utilization of family labor (women, children, parents) on the farm or within the household enterprise. This could also include village enterprises in production, processing or provision of agriculturally related goods or services;

(7) increased and/or more effective participation of women in the enterprise financed and economic benefits to be derived;

(8) improved economic returns to small producers, processors, or intermediaries from reduced government participation in all portions of the production and marketing chain for given commodities;

(9) improved returns to rural or urban poor cooperative members or enterprise shareholders from improved efficiency and economies of scale, more equitable management and distribution of profits.

Sub-projects must reflect adequate planning and cost estimating and must be environmentally sound and otherwise conform with applicable AID requirements. Any loan requiring over \$200,000 of funding from the Grant must be approved by the AID Mission Director before approval by an ICI for financing.

(c) Structure and Mechanism. The details regarding the structure and operation of the lending program will be worked out primarily during the pre-implementation phase of the project. For the most part these will be spelled out in an operations manual to be developed with contract assistance and approved by AID and the Bank of Uganda. In general, however, each ICI will be expected to sign an AID-approved loan agreement with BOU, containing all terms and conditions governing the loan and the reloan of funds to enterprises. Approved subloan requests will be presented to BOU with a request that loan financing be provided to the ICI to cover such sub-loans. Upon approval by BOU (and AID if required), the ICI and AID will be notified and specific arrangements regarding disbursement, executing and supporting arrangements will be made. ICIs will approve and negotiate individual sub-loans with client enterprises in accordance with established procedures. Each ICI will have a detailed operational plan for the operation of the exchange

(d) Data Management, Analysis, Evaluation, and Planning. A Data Management and Planning Office will be established within the Technical Assistance Entity with a full time Ugandan data management expert in charge, assisted by graduate assistants and short-term U.S. consultants as necessary. This office will have four major functions:

- supervision and coordination of all studies to be conducted
- development of a project information system
- development of quarterly, annual and longer term work plans and reports for the project as a whole and provision of analytical "backstopping" for all major activities
- preparation of data and analytical material for the two major evaluations to be conducted of project performance and impact.

The Data Management Office will also complete development of and maintain an ongoing data collection system based on systematic data collection, recording and reporting requirements from both ICI's and sub-borrowers. The system or systems developed will be approved by AID.

Studies and surveys will also be conducted on such subjects as constraints to agricultural enterprise development, alternative and informal credit systems and internal capital markets, and the roles of women in agricultural enterprises.

3. Project Outputs.

The following accomplishments are expected by the end of the five year life of the project:

a. Intermediate Credit Institution Strengthening and Capitalization:

- a consolidated agricultural project division within UDB effectively functioning as an integrated unit capable of adequately appraising almost all types of agricultural enterprise proposals
- sound loan processing and credit management procedures which are fully developed and tested, revised and

formalized as part of official bank policy

- timely processing of loan applications (within 2 to 4 weeks) at the rate of approximately eight per month
- improvement in appraisal and supervision such that outstanding delinquent balances on loans are held to less than 5% of portfolio balance
- significant drop in average cost of administration per loan
- active participation by one or more commercial banks with a target portfolio of loans of approximately \$1.0 million.

b. Sub-borrower Strengthening.

- a legally-established technical assistance entity capable of acting as a genuine private consulting agency
- a minimum of 40 enterprises assisted with feasibility studies and project designs; an additional 20-25 enterprises provided business management expertise
- 40% of organizations assisted capable of carrying out their own investment project analysis
- approximately 100 persons from enterprises provided management and project development training.

c. Lending.

- approximately 100 loans made to agricultural enterprises for rehabilitation and development projects.

d. Data Management and Analysis.

- base line information on sub-borrowers, sub-projects, ICI's and the TA entity
- periodic reporting of indicators showing progress or lack thereof toward project targets
- detailed operational reporting for purposes of sub-project tracking, implementation monitoring, trouble shooting, etc.

- special analyses and studies completed for purposes of policy formulation, strategy development, activity planning, programming of human and financial resources, coordination, identification and sharing of innovation
- base material for detailed planning of follow-on activities
- useful material for capital resource mobilization from external donors and lenders as well as private capital markets.

Article II. Implementation.

A. Administrative Arrangements.

1. Government of Uganda.

(a) Executing Agency.

The Bank of Uganda will be the agency responsible for implementing the project on behalf of the Government of Uganda.

(b) Policy Direction and Oversight.

A high level, inter-agency project committee will be established which will meet periodically to review progress, provide policy guidance, and deal with major actions and difficulties as they arise. The committee, to be organized by the Ministry of Finance and chaired by the Bank of Uganda, is to consist of the following representatives or their designees:

- Governor of the Bank of Uganda - Chairperson
- Permanent Secretary, Ministry of Finance - Member
- Permanent Secretary, Ministry of Planning - Member
- Representative of the national Chamber of Commerce - Member
- Representative of the Uganda Development Bank - Member
- Representative of the Commercial Banks - Member
- USAID Mission Director - Member
- Bank of Uganda Project Manager - ex-officio Member

Another vehicle for oversight will be quarterly audits performed under an AID contract which will provide independent audit coverage of all project lending operations including both ICI and sub-borrower performance and compliance with project criteria and requirements. Audit reports will be provided to the Bank of Uganda and the USAID and shared as appropriate with other participating entities.

(c) Project Management and Administration.

Project management responsibility will officially rest with the Director of the Department of Development Finance, or his designee, who will have full delegated authority to act in behalf of the BOU on project related matters including official documents. The Project Manager will be directly responsible for the overall supervision and monitoring of project activity for BOU, general liaison with the USAID Project Manager, preparation and submission of necessary documentation such as that required to satisfy conditions precedent and covenants, agreement on terms of reference for project contracts, participation in contractor selection, review of periodic ICI and contractor reports and taking action thereon, approval and management of BOU loan to ICI's, timely provision of counterpart local currency resources to the UDB, and other duties and actions as required to further successful project implementation. It is expected that the BOU project manager will be heavily involved in project actions during the 24 month pre-implementation phase. Once the primary technical assistance contractor arrives and systems are in place and operating, the need for such heavy involvement should diminish substantially.

2. Intermediate Credit Institutions.

The ICI's will be responsible for management of ongoing project related operations in accordance with the terms of loan agreements signed with the BOU and such other instructions as will be issued from time to time by the BOU and AID. The UDB, as the lead ICI, will have a variety of additional responsibilities. UDB management will be responsible for compliance with project conditions and covenants and for approval and support of technical assistance and training initiatives provided by the project. In addition, UDB management will review and agree on terms of reference for contract advisors, studies and training activities, manage the sub-loan review and approval process; submit disbursement requests, and provide quarterly reports to BOU and AID. UDB management will also be responsible for appraisal of all sub-loan proposals to be funded through UDB, referral of clients to the TA entity, and for implementation of approved appraisal procedures.

3. USAID.

The USAID roles in implementation will be limited as much as possible to required approvals of loans and to making the necessary procurement arrangements for technical assistance contractors. Project implementation actions, other than those which are the responsibility of the Government of Uganda, will be the responsibility of the various technical assistance contractors with advice and guidance from the USAID as necessary.

B. Procurement Responsibilities.

Contracts for technical assistance services will be entered into directly by AID with contractors chosen in accordance with standard AID procurement procedures. The Government of Uganda will have the opportunity to review and approve the scopes of work for such contracts and will participate in contractor selection. Commodity procurement related to technical assistance and training activities will be carried out by the responsible technical assistance contractor.

All commodity procurement (both off-shore and locally in Uganda and Kenya) by sub-borrowers under the project will be carried out through a Procurement Services Agent (PSA) to be provided under the primary technical assistance contract. For sub-loans approved prior to the installation of the primary technical assistance contractor and the PSA, the USAID will assume direct procurement responsibility unless agreed otherwise with the ICI and sub-borrower in question.

Article III. Evaluation.

There will be two evaluations as part of the project. One evaluation will occur at the end of the pre-implementation phase to assess the pre-implementation experience against the original design of the project and to redesign, if necessary, the main implementation phase of the project. This evaluation will be conducted in collaboration with the finance and development specialist and the specialists from the technical assistance contractor, with additional consultants as required.

A final project evaluation will be conducted in the last year of the Project. This will include evaluation of progress toward attainment of the objectives of the project and will consider contractor, GOU and USAID performance in implementing

the project. This evaluation is expected to be carried out by a team of three people (finance, agro-industry and social science or some similar mix) over a period of approximately two months.

Article IV. Financial Plan.

A project financial plan is attached hereto as Attachment 1.

PROJECT FINANCIAL PLAN*
Anticipated Expenditures by Project Year
(\$000)

	<u>PY1</u>	<u>PY2</u>	<u>PY3</u>	<u>PY4</u>	<u>PY5</u>	<u>Total</u>
1. <u>AID FINANCED CONTRIBUTIONS</u>						
a. Credit Line	500	800	2000	2400	2600	8300
Inflation		56	289	540	808	1693
Sub-Total	500	856	2289	2940	3408	9993
b. Long-term TA						
Chief of Party			165	165	165	495
Finance Anal(UDB)			155	155	155	465
Ag-Bus. Mgt. (TA Ent)			85	85	85	255
Accounting (TA Ent)			85	85	85	255
Finance Anal(TA Ent)			85	85	85	255
Loan Off.	75	75				150
Sub-Total	75	75	575	575	575	1875
c. Short-term TA						
Finance/Dev.Banker	60	60				120
Consultants	50	50				100
Agro-Ind. Advisor		25				25
Bus. Analyst		25				25
Other Intl&Local		50	150	150	100	450
Sub-Total	110	210	150	150	100	720

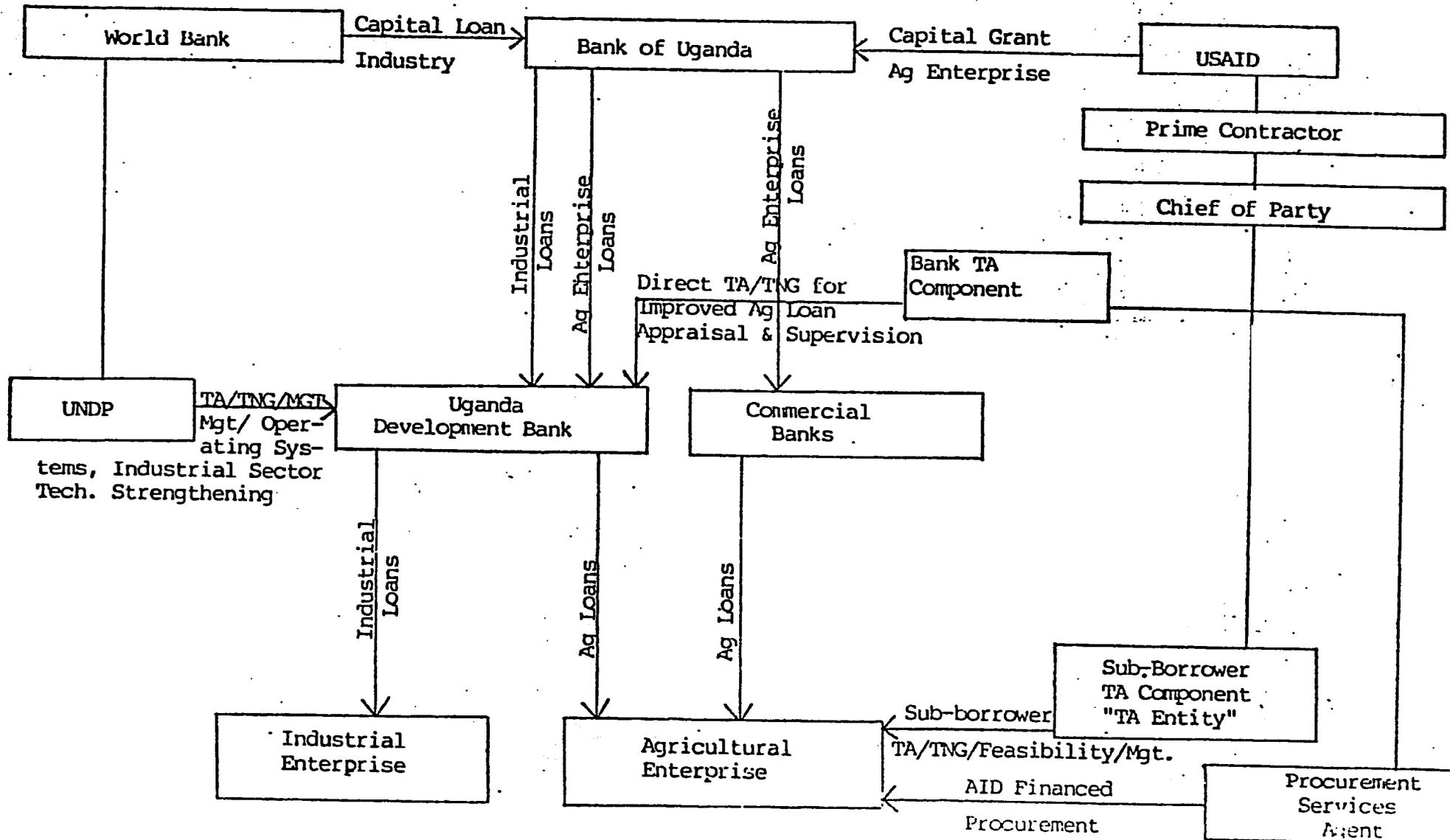
* Projected AID funding beyond that granted in Section 3.1 of the Project Grant Agreement is subject to the availability of funding to AID and to the mutual agreement of the parties at the time subsequent increments of funding are required, to proceed with the project.

	<u>PY1</u>	<u>PY2</u>	<u>PY3</u>	<u>PY4</u>	<u>PY5</u>	<u>Total</u>
d. Local Hire						
Prof. Staff	30	80	130	190	190	620
Support Staff	10	20	50	50	50	180
Sub-Total	40	100	180	240	240	800
e. Local Travel	10	40	70	90	90	300
f. Local Off Cost	12	22	22	22	22	100
g. Training						
In-country (ICI's)	10	20	20	20	10	80
US & Third Country	40	40	40	40	20	180
In-country Enterprises	10	20	20	20	10	80
Sub-Total	60	80	80	80	40	340
Sub-Total Direct Contract Costs	307	527	1077	1157	1067	4135
Contract Overhead	107	184	377	405	373	1447
Sub-Total TA/Trng	414	711	1454	1562	1440	5582
h. Other Costs						
(1) Commodities						
Vehicles	45	55	30	15		145
Office Equipment		50	20	5		75
Computers		40				40
Sub-Total	45	145	50	20		260
i. Procurement Services	25	43	100	100	100	368

	<u>PY1</u>	<u>PY2</u>	<u>PY3</u>	<u>PY4</u>	<u>PY5</u>	<u>Total</u>
j. Data Management		30	50	50	20	150
k. External Audit	10	50	100	100	100	360
l. Intl. Vol. Services (IESC)	5	10	10	10	10	45
m. Evaluations		50			100	150
Sub-Total All Non- Credit Costs	499	1039	1764	1842	1770	6915
Inflation		72	256	414	550	1291
Sub-total Non-Credit Costs	499	1112	2020	2257	2320	8208
<u>Total AID Contri- butions</u>	999	1968	4309	5197	5728	18200
 <u>2. GOVERNMENT OF UGANDA, ICI, AND PRIVATE ENTER- PRISE CONTRIBUTIONS</u>						
Bank Financed Inputs (Local Currency Loan Component)	250	400	1000	1200	1300	4150
Inflation		28	145	270	404	847
Sub-Total	250	428	1145	1470	1704	4997
Enterprise Financed Inputs	150	240	600	720	780	2490

	<u>PY1</u>	<u>PY2</u>	<u>PY3</u>	<u>PY4</u>	<u>PY5</u>	<u>Total</u>
TA Entity			50	60	65	175
Sub-Total	150	240	650	780	845	2665
Inflation		17	163	176	263	619
Sub-Total (incl. inflation)	150	257	814	956	1108	3285
<u>Total GOU, ICI, and Enterprise Contri- butions</u>	400	685	1959	2426	2812	8282
TOTAL PROJECT COST	1470	2790	6731	8128	9172	28246

PROJECT STRUCTURE



Project Grant Standard

Provisions Annex

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 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 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 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 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. 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

(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;

(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

Article C: Procurement Provisions (Continued)

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 sub-section must be achieved with respect to both any cargo transported from U.S. ports and 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 U.S. dollars or, as A.I.D. may agree in writing, 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 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 replacements 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 (Continued)

(e) 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 with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.