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OFFICIAL PROJECT
DOCUMENT



PROJECT GRANT AGREEMENT

Between The

REPUBLIC OF KENYA

and the

UNITED STATES OF AMERICA

acting through the

AGENCY FOR INTERNATIONAL DEVELOPMENT

FOR

AGRICULTURAL MANAGEMENT PROJECT

A.I.D. Project No. 615-0221

Date: September 28, 1985

By this Agreement made and entered into on the twenty-eighth day of September 1985, the Government of the Republic of Kenya (hereinafter referred to as the "Cooperating Country") and the United States of America acting through the Agency for International Development (hereinafter referred to as "A.I.D.") hereby agree as follows:

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 Cooperating Country 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 1, will consist of an integrated program of management assistance and training which is designed to improve the management capacity and performance of private and public organizations which support agricultural production, especially among smallholders. 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 Cooperating Country, 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 Cooperating Country 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 Cooperating Country under the terms of this Agreement not to exceed One Million United States ("U.S.") Dollars (\$1,000,000) ("Grant"). The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

SECTION 3.2. Cooperating Country Resources for the Project.

(a) The Cooperating Country 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) The Cooperating Country agrees to provide, or cause to be provided, resources for the Project of not less than the equivalent of U.S. \$1,042,000, including costs borne on an "in-kind" basis. Of this amount, it is understood that the equivalent of U.S. \$462,000 will be provided by private sector entities participating in the Project.

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is December 31, 1988, 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

Cooperating Country, 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 disbursement will be made, the Cooperating Country 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) A statement of the name of the person holding or acting in the office of the Cooperating Country 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. Notification.

When A.I.D. has determined that the conditions precedent specified in Section 4.1 have been met, it will promptly notify the Cooperating Country.

SECTION 4.3. Terminal Dates for Conditions Precedent.

(a) If all of the conditions specified in Section 4.1 have 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 the Cooperating Country.

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 consist of a major mid-term evaluation as defined in Annex 1, the Amplified Project Description.

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SECTION 5.2. Import of Project Commodities.

The Cooperating Country agrees that notices will be published in its Gazette, as required from time to time, specifying that Project funded commodities will enter Kenya free of all duty and taxes. These notices will be published upon requests from A.I.D. which will list the types and approximate quantities of commodities to be imported under the Project.

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, with respect to goods, their source and origin, and with respect to services their nationality in the United States (Code 000 of the AID Geographic Code Book), 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 flag registry of the United States, except as A.I.D. may otherwise agree in writing.

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 the Republic of Kenya ("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 Cooperating Country 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:

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(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 Cooperating Country'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 Cooperating Country in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless Cooperating Country 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 Cooperating Country 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 Cooperating Country to make available the local currency for such costs, and (B) thereafter making available to the Cooperating Country, through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Cooperating Country or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available by the Cooperating Country, 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 the Grant are introduced into the Republic of Kenya by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Cooperating Country will make such arrangements as may be necessary so that such funds may be converted into currency of The Republic of Kenya at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Republic of Kenya.

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 Cooperating Country:

Mail Address: Permanent Secretary
Ministry of Finance
P. O. Box 30007
Nairobi, Kenya

Alternate address for cables: Finance, Nairobi, Kenya

To A.I.D.:

Mail Address: Director
USAID Mission to Kenya
P. O. Box 30261
Nairobi, Kenya

Alternate address for cables: USAID, AmEmbassy, Nairobi

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All such communications will be in English. 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 Cooperating Country will be represented by the individual holding or acting in the office of Permanent Secretary, Ministry of Finance and A.I.D. will be represented by the individual holding or acting in the office of Director, USAID Mission to Kenya, 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 Cooperating Country, 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 part of this Agreement.

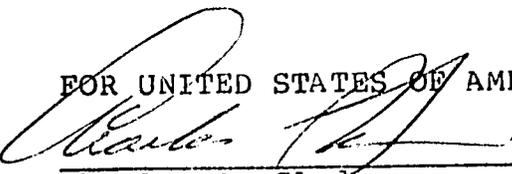
IN WITNESS WHEREOF, the Cooperating Country and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

FOR THE GOVERNMENT OF KENYA



J. W. Njoroge
Financial Secretary
Ministry of Finance

FOR UNITED STATES OF AMERICA



Charles L. Gladson
Director, USAID/Kenya

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ANNEX 1

AMPLIFIED PROJECT DESCRIPTION

I. GENERAL PROJECT DESCRIPTION

A. Background of the Project

The basic problem that this project will address is the need to improve management performance of many institutions that carry out critical functions in Kenya's agricultural sector. At the farm level, investment decisions leading to increased productivity are directly influenced by the links that farmers have with intermediary institutions which carry out technical support, provision of inputs, marketing of outputs and other specialized functions. When farmers do not obtain prompt, satisfactory service from these intermediary institutions, their ability to maximize production is undermined. Therefore, the objective of this project is to strengthen the management of intermediary institutions which function in the Kenyan agricultural sector so that their improved efficiency will in turn engender higher production and profits for agricultural producers.

The project responds to needs identified by the Government of Kenya in recent major policy statements such as the National Development Plan for the period 1984 - 1988 and the Working Party Report on Government Expenditures. The concerns expressed in these Kenyan policy statements and the interventions proposed in this project dovetail with A.I.D. strategy which emphasizes the need to improve smallholder productivity and the necessity of improving the efficiency of agricultural sector operations at all levels. While this project concentrates on the efficiency of intermediary institutions, those organizations selected for assistance will be chosen on the basis of their close association and importance to the Kenyan smallholder.

B. Purpose of the Project

The purpose is to strengthen the management capacity and performance of private and public organizations which support agricultural production, especially among smallholders.

C. Project Description

The project will provide an integrated management assistance and training program for intermediary agricultural institutions. A management consultancy team will have

day-to-day responsibility for project operations, reporting to the Principal of Egerton College. The team will be based at the Agricultural Resource Center (ARC) of Egerton College. At the time of selection of the management consultancy team, the contractor will propose a series of subcontractors who will participate in the provision of management consulting and training services. The management consultancy team, including staff members from the ARC, will be responsible for providing the services which will be needed to strengthen each client organization. Client selection will be approved by a Project Coordinating Committee to be composed of representatives from the Kenyan public and private sectors and A.I.D. The Committee will be responsible as well for reviewing the status of project implementation, approving the contractual documentation between clients and the contractor and establishing policy direction for the project as required.

Assistance to client organizations will begin with a promotional campaign to apprise potential clients of the project's services and to encourage firms to identify themselves as having a strong interest in the program. Following client identification, an assessment of the clients' strengths and weaknesses will be made and a program of management consultancy and training proposed. Each client will be expected to contribute to the cost of the services to be provided through the project. The details of services to be rendered and the specific contribution to be made by each client will be set forth in a contract between the project's principal contractor and each client.

The Project Coordinating Committee, the management consultancy team, the MOALD and A.I.D. will be involved in process evaluation and monitoring throughout the life of the project to assess the effectiveness of the techniques utilized and to study the results of the project. A major project evaluation will take place after eighteen months of consultant activity in order to determine the viability of the project concept and determine if a second phase of project activity will be undertaken.

Successful implementation of the first phase will be measured against the following objectives: (1) improved productivity and efficiency in a minimum of twenty-four client institutions which receive project assistance; (2) increased effectiveness of client institutions in performing critical functions required by smallholders, and (3) demonstrated improvement in the application of management skills and problem solving techniques by the approximately 350 individuals who will be direct beneficiaries of the project's management improvement and training programs.

A management consultancy team will have day-to-day management responsibility for the project's operations, working under the general direction of the Principal of Egerton College and in collaboration with staff members of the Agricultural Resource Center (ARC) of Egerton College. At the time of selection of the management consultancy team, the prime contractor will propose a series of subcontractors who will participate in the provision of management consulting and training services. It is anticipated that a great deal of Kenyan expertise will be recruited through the subcontracting mechanism to supplement the prime contractor's own capabilities. One of the prime contractor's long-term technical personnel will also be a Kenyan. This integrated group of specialists, including those from the ARC, will be responsible for providing the services which will be needed to strengthen each client organization. The bulk of these services will be rendered at the client's place of work and will be highly participatory in nature. The objective is to promote institutional change rather than simply to provide training to individuals.

II. MAJOR RESPONSIBILITIES OF PROJECT PARTICIPANTS

In order to provide the services and obtain the resulting management improvements anticipated by this project, an organizational scheme involving six principal entities will be required. The six entities are:

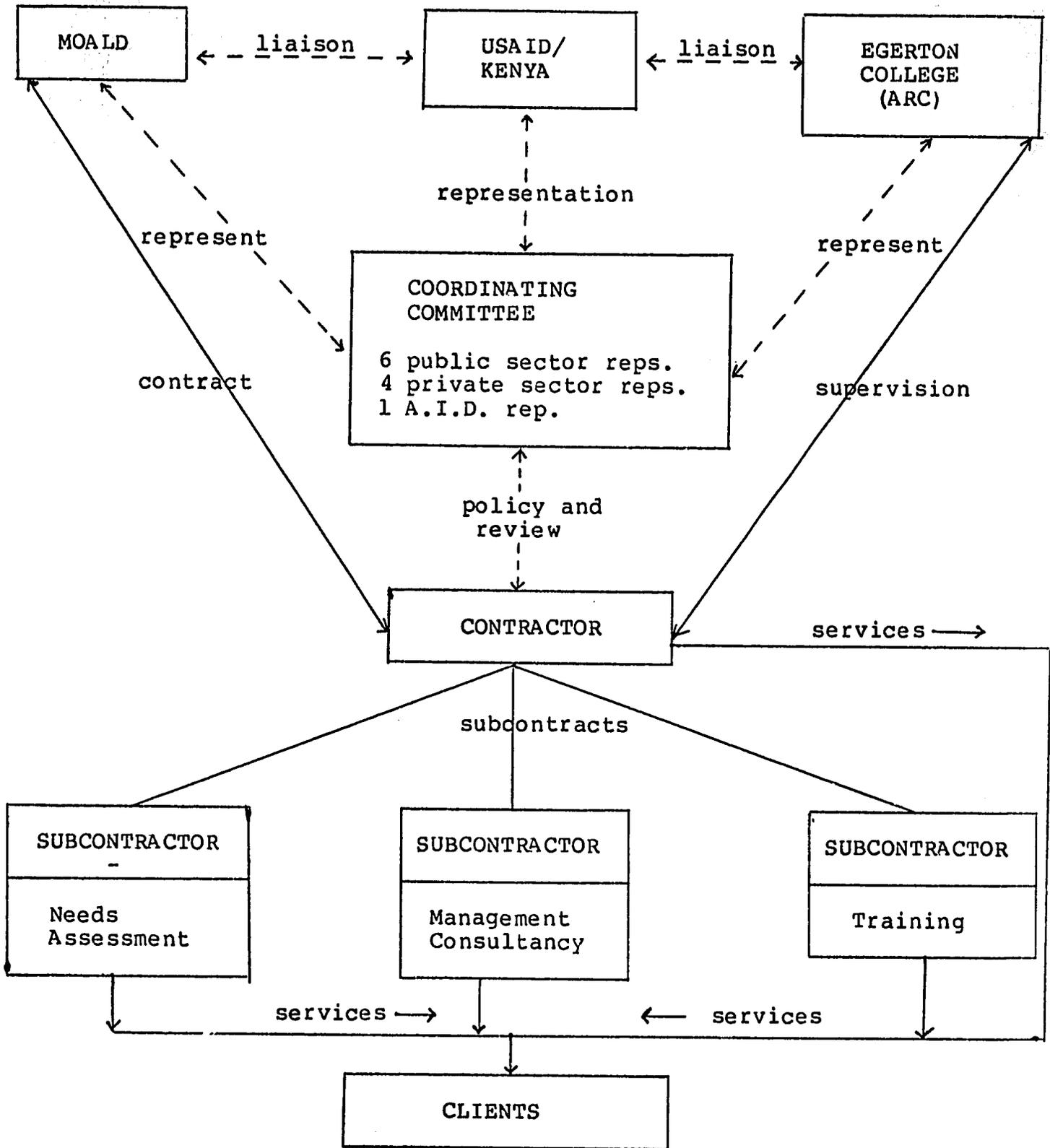
- (1) MOALD
- (2) USAID/Kenya
- (3) Egerton College
- (4) A Project Coordinating Committee
- (5) The Contractor
- (6) The Project's Clients.

The general relationship between these entities is shown on the following page.

1. Ministry of Agriculture and Livestock Development

The Ministry of Agriculture and Livestock Development will be responsible for obtaining the services of the project contractor in consultation with USAID/Kenya. The Ministry as the accounting body has a primary responsibility for the execution of the project. The Permanent Secretary Ministry of

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Agriculture and Livestock Development will therefore appoint a Project Officer at the Ministry headquarters for monitoring project implementation. The Project Officer will on behalf of the Permanent Secretary MOALD be a member of the Project Coordinating Committee. After eighteen months of contractor activity, an independent evaluation team will be set up by the Government of Kenya and USAID to carry out a mid-term project evaluation.

2. USAID/Kenya

AID will monitor project progress through its membership on the Project Coordinating Committee. AID will also participate in organization of the major project evaluation to be undertaken following the eighteenth month of contract services.

The USAID/Kenya Director or his designee, will serve on the Project Coordinating committee. As required, liaison will be carried out between AID, MOALD and Egerton College on administrative matters and with the Ministry of Finance in regard to the Project Agreement.

3. Egerton College

The Principal of Egerton College, where the project operations will be based, will be responsible for day-to-day administration of the project. Two staff members from the College will participate in the execution of the project. Their duties may include: participation in management consulting and training activities, participation in needs assessments, development of baseline data collection and project monitoring systems, and observation of the procedures used in management of the project (accounting, contract administration, record-keeping etc.)

The ARC at the College will serve as the site for training seminars to be designed and conducted by the project. Office space, housing and utilities necessary to service the project will be provided by Egerton College. The College will be responsible for procurement, upkeep and maintenance of project transport and equipment with funds provided through the project.

The objectives of these arrangements are twofold. First, the collaboration between the college and the project's other staff should prove beneficial to the development of agricultural management expertise at the college, while providing the project with additional manpower and infrastructural support for its operations. Secondly, the location of the project at the College will provide a strong field orientation to the project, being in the heart of Kenya's most agriculturally productive land.

4. The Project Coordinating Committee

The Coordinating Committee will be composed of eleven members: 6 from the public sector, 4 from private sector and 1 from USAID/Kenya. The public sector members will include one representative from each of the following organizations:

- Ministry of Finance
- Ministry of Agriculture and Livestock Development
- Directorate of Personnel Management
- Egerton College
- Ministry of Planning and National Development
- Ministry of Cooperative Development

The four private sector representatives will be nominated by the Ministry of Agriculture and Livestock Development in consultation with the Director, USAID/Kenya.

The Coordinating Committee will meet quarterly or more often if necessary, at Egerton College to review project progress based on the reports prepared by the contractor and to make recommendations regarding project operations.

The Coordinating Committee will approve the contractor's selection of clients made in accordance with the selection criteria established for the project (see Section IV of this Annex). Members of the Project Coordinating Committee will be available to the contractor as resource persons in identifying specific management consulting or training resources which may be required in executing the project.

5. The Contractor

The approved contractor will have primary responsibility for the execution of this project. The contractor will base three full-time staff members in Kenya at Egerton College to assist in executing the project. A senior management consultant will head the team and be assisted by a full time training specialist. The third member of the core team will be a project promotion specialist whose primary responsibilities will include publicizing the project's services and assisting in the client selection process. This position will require an in-depth knowledge of the Kenya business environment, as well as familiarity with Kenyan public sector institutions.

Provision will be made to enable the contractor or one of the subcontractors to execute needs assessments prior to the commencement of consulting services. A substantial number of person months for short-term management consulting services will be required to address client's needs. Funding will be made available for on-site training as well as training at Kenyan, 3rd-country and U.S. institutions on a short-term basis.

Utilizing these resources, the contractor will carry out a wide range of duties. The contractor will develop a promotional program to inform the client population of the project's services and will identify interested clients utilizing the selection criteria outlined in this Annex. Once final client selection is made (approximately 24 clients are anticipated over the 2 year life of the project), the contractor will perform a detailed needs assessment for each client. Using the results of the needs assessment, the contractor will then formulate a program of management consulting services and training for each client and contract with the client for the services to be rendered. Both these contracts and any contractual arrangements for needs assessment will require the approval of the Coordinating Committee.

Services to be provided under the management consultancy will include such function as:

- business organization,
- communications and records,
- financial systems,
- inventory control,
- marketing
- production functions,
- procurement of goods and services,
- personnel,
- planning,
- and management skills and techniques

Training will encompass a program tailored to the specific needs of the client and presented on the client's premises. Short-courses of up to 3 months' duration may be identified in the U.S. or a third country which would be of

benefit to selected client staff members. There are also existing training facilities in Kenya where useful short-term training can be obtained. The contractor will undoubtedly identify problems common to a series of firms, in financial management for example, which can be addressed in seminars organized by the contractor. Flexibility both in terms of contractual arrangements and budget will be maintained so that specific client needs can be addressed in the management consulting and training programs sponsored by the project.

The contractor will also be responsible for developing baseline data on client operations which can be used in evaluating the progress made by clients once serviced by the project. The contractor will conduct its own assessment of client progress following the completion of project services and prepare a report on each client for review by the project's Coordinating Committee.

The contractor will maintain detailed accounting records and contract documentation in conformity with GOK and AID regulations and these will be reported at each regular Project Coordinating Committee meeting through the Principal of Egerton College.

6. Clients

It is estimated that the project contractor will service at least twelve clients a year totaling a minimum of twenty-four over the life of the project. While the project contractor will promote the concept of the project to clients, it is the clients themselves who will choose to participate in the project's activities. Such participation will involve a financial contribution to the cost of services received, the allotment of staff time for training and work with the management consulting and needs assessment teams, and the allocation of office space and utilities to the consultants while on-site.

The project will provide its services to both private and public sector clients who may be input suppliers, processors of primary commodities, marketing organizations, credit suppliers or other entities which concern themselves with the production of the country's agricultural sector, particularly that of Kenya's smallholders. Public sector clients may include development authorities, marketing board, regulatory and advisory boards, cooperatives, other parastatals and government ministries concerned with smallholder production.

The objective is to obtain a widespread sample of private and public sector clients against which to measure the strength of demand for management consulting services of the sort to be provided by the project and to assess the effectiveness of these services in improving the client's production and efficiency.

III. EVALUATION AND MONITORING PLAN

A. Internal System for Process Evaluation and Monitoring

The multiplicity of project clients, and the unique set of services required by each client, demand the establishment of a system of internal monitoring and evaluation. In carrying out its day-to-day operations, the contractor must be able to track the progress of on-going activities and identify problem areas that will require further assistance. Strong lines of communication must exist between the prime contractor and its subcontractors since, in some cases, the prime may play only a peripheral role in the actual provision of management consulting and training services to a client.

The process evaluation and monitoring system will be based on four functions: (1) establishment of contracts for services between the contractor and each client, (2) establishment of six-month work plans to govern the contractor's overall operations, (3) end-of-consultancy reports which will summarize the actions undertaken and results anticipated for each client and (4) client progress reports to be developed on a return visit to the client six-months after the consultancy has ended.

The Project Coordinating Committee will review the contracts for services with each client to determine compatibility with overall project objectives. The work plans will serve as benchmarks against which to judge quantitative progress. The end-of-consultancy reports and client progress reports, submitted to the GOK and AID through the project Coordinating Committee will provide quantitative measures of progress as well, but more importantly, will serve as a basis for judging the quality of the results achieved and in determining whether adjustments should be made in the process of service provision to clients. Feedback from the GOK, AID and the Coordinating Committee is expected as part of the monitoring and evaluation system.

Data gathered from all of these documents and reports will be useful in answering such key questions as:

- Did the client fulfill its commitments by providing the resources as agreed in its contract with the service provider?
- Did the contractor render successfully the agreed level of services in a timely manner?
- What results were achieved by the project in the case of each client?

The timely review of documents on each client may yield insights which will be useful in dealing with subsequent clients during the life of the project. Cumulatively, they will serve as a key collection of information for the major evaluation which will determine the overall impact and viability of the project.

B. Major Mid-term Evaluation

In order to satisfy the decision making requirements for future project activities in agricultural management, the outside evaluation held 18 months after start-up of the prime contract must carry out these tasks:

- determine the strength of demand for services provided by the project, both in terms of the numbers of clients served and the resources provided by clients in support of the project (as a benchmark, a minimum of 18 clients, who contribute some degree of financial resources to the project, must be reached by the time of the evaluation);
- determine whether project assistance is producing better management performance in the client institutions served by the project;
- determine whether the mechanisms used for delivering management assistance are functioning satisfactorily;
- identify any adjustments in financial mechanisms, criteria for assistance, administrative structure, inputs, etc., that may be needed to improve implementation performance and increase impact, if a Phase II is warranted;
- if a Phase II is warranted, assess funding requirements by project component, including an analysis of the degree to which Kenyan institutions can assume financial responsibility for the project;
- to the extent possible, establish the link between demonstrated improvements in clients' management performance and smallholders' ability to increase productivity and obtain higher incomes.

Methodology and Staffing

The external evaluation team will need to draw on a variety of data sources in order to fulfill the objectives spelled out above. The starting point for the evaluation will be the information base generated by the project's internal monitoring and evaluation system. In addition, the following other data sources should also be used:

- interviews with members of the Project Coordinating Committee;
- interviews with managers (at different levels) in a sample of client institutions that have received assistance;
- interviews with farmers who use the services (marketing facilities, credit, extension, etc.) of client institutions;
- observation of activities in progress at the time of the evaluation; and
- interviews with the staff of the contract team.

A minimum of six calendar weeks should be allotted for this evaluation, since the geographically dispersed locations of clients will require extensive travel.

Staffing of the evaluation team should reflect a balance of disciplines. In particular, a management analyst and a specialist in training program design and execution, both with substantial developing country experience, should be included in the team. Their expertise should be complemented by the least one team member with a background in agricultural economics, extension, or agronomy. Both AID and the GOK will be represented on the team.

Content and Timetable for the Evaluation Report

The outside evaluation team's report should contain three principal sections in order to satisfy the requirements for decision making on project continuation and redesign for a possible Phase II:

- presentation of findings and conclusions relative to each of the points listed above as evaluation objectives;
- recommendations as to whether the project should be continued in a second phase, or terminated at the end of Phase I, with justifications for the recommended course of action; and
- if the recommendations call for proceeding with Phase II, a proposal for any modifications required in the project design to be incorporated in the Phase II project.

IV. IMPLEMENTATION PLAN

A. Period Prior to Contract Implementation (8 months)

Following satisfaction of conditions precedent, the GOK in collaboration with AID will issue a Request for Proposals (RFP) for the principal contract for services to be performed under the project. Proposals will be evaluated by the GOK in collaboration with USAID/Kenya representatives.

While the contracting process is underway, USAID/Kenya and Egerton College will process the necessary documentation (PIO/C's), solicit offers and arrange the purchase of selected project commodities, namely project vehicles, basic office furnishings and equipment, and furnishings and equipment for housing. The objective is to have available to the contractor those items which will be needed immediately upon arrival of the contract team. Only essential items will be ordered during this phase; the balance of the procurement of equipment and supplies will be incorporated in the prime contractor's scope of work.

During this initial period, USAID/Kenya will also consult with Egerton College regarding the logistics of establishing the project's offices and nominating or hiring the employees of the Agricultural Resource Center who will work with the management consulting team. Once again, the objective is to prepare the way for the start-up of the actual project operations.

This entire start-up phase is expected to run for no more than eight months.

B. Period of Contract Implementation (28 months)

Once the prime contract is signed, the three principal core team members (chief of party/management consultant, training specialist and project promotion specialist) should be immediately available for posting to Egerton College. Initial tasks will include procurement of any additional materials and supplies required for start-up and establishment of operating procedures for the office.

The contractor will then need to formalize its sub-contractual arrangements with those entities selected to execute selected tasks under the prime contract. Secondly, the contractor must prepare and implement a promotional campaign which will advertise the project's services to prospective clients and assist interested entities in preparing requests for assistance under the project. Prime responsibility for this task will fall to the project promotion specialist.

During the process of client identification and selection, the criteria which are defined in this Section will be utilized. The objective is to obtain a group of clients, both private and public, who are significant to the success of smallholder agricultural operations and who are widely representative, both functionally and geographically, of the universe of such entities in Kenya.

It is expected that in the initial three months of contract operation, twelve candidates for receipt of initial project services will be identified. However, some other arrangement regarding client selection may prove more practical. Whatever the method, client selection by the contractor will be reviewed and approved by the Project Coordinating Committee to assure compliance with the selection criteria prior to execution of any service for the clients.

Once initial clients are chosen the first semi-annual work plan will be prepared by the contractor detailing the timing and nature of services to be provided to each client. Subsequent plans will be prepared on a semi-annual basis and forwarded to members of the Project Coordinating Committee as well as USAID and MOALD officers for review.

The contractor will be responsible for determining the nature of its contractual arrangements with selected clients. Such arrangements may consist of two parts; one for needs assessment, and another for actual management consulting and training services. The scope of services to be provided to each client will be reviewed and approved by the Coordinating Committee prior to execution of the arrangements. It will be the contractor's responsibility to assure that its arrangements cover the timing and means of payment of the portion of costs for services to be borne by each client (see Section V for details on cost estimates).

Needs Assessment and Provision of Management Consulting and Training Services

For each selected client, a detailed needs assessment will be conducted to identify specific problems which can be addressed effectively by the project. This role may be carried out by a subcontractor or the prime contractor itself, depending on the final configuration of the TA contract. Results of the needs assessments will be reviewed by the prime contractor and decisions reached on what services will be provided to each client and which member of the consulting group will perform the required services.

Since the needs of each client will be unique, the scope of services and composition of the team providing services to each client will also be unique. The match between client needs and the contractor's ability to respond adequately to those needs is the principal key to success of the project. The project budget and the contracting mechanism are so structured as to provide maximum flexibility to the contractor so that positive results may be achieved. Given the expected target of 24 clients serviced over a two-year period, the budget allows for three person-months of short-term technical expertise to deal with the management consulting needs of each client. Additionally, the project, as designed, allows for on-site training and in-country seminars (at the ARC), as well as 6 person-months per client of short-term training in the U.S. or a third-country and 4 person-months of specialized short-term training in Kenya.

Monitoring and Reporting

Following the completion of the provision of management consulting and training services to each client, the contractor will prepare a report on its activities and anticipated results. These reports will be reviewed by the Coordinating Committee and forwarded to the MOALD and USAID/Kenya. Six months following the end of each consultancy, the contractor will return to each client to evaluate results achieved to date and to determine if further findings will also be reported to the Coordinating Committee, the MOALD and USAID/Kenya. In order to adequately judge progress, the contractor must establish a baseline data collection system which will provide information on the status of the client's operations, and financial position where possible, prior to receipt of project services. This information will be essential to monitoring and evaluating the success of the project.

These end of sub-project and monitoring reports together with the semi-annual work plans represent the major reporting requirements of the contractor. The Principal of Egerton College will have day-to-day responsibility for project oversight. The Project Coordinating Committee, utilizing the reports prepared by the contractor, will assess progress and make recommendations for changes in procedures or operations on a regular basis. USAID/Kenya, and the MOALD, through their selected Project Officers, will also monitor the overall progress of the project and the progress of the contractor, in particular.

C. Criteria for Client Selection

The following criteria will be followed by the contractor in selecting clients for project assistance. These criteria will also be utilized by the Project Coordinating Committee in approving and USAID/Kenya in reviewing the contractor's selection of clients.

1. Evidence of demand for services. Each client must exhibit a commitment of cash, staff time and facilities to the process of management improvement proposed under this project.
2. Linkage to the agricultural sector. Products or services which clients produce or deliver must be directly related to the agricultural sector.
3. Linkage to the smallholder. Assistance provided to any client under the project must ultimately benefit the rural sector of the Kenyan economy, particularly the smallholder (farmers with less than 20 hectares of land). Preference will be given to organizations which operate at the point of contact between farmers and intermediaries in the agricultural sector.
4. An analysis of policy and regulatory constraints must be undertaken by the contractor to ensure that policy or regulatory constraints will not negate the benefits of proposed management improvements. If the analysis of the policy and regulatory environment is negative, no assistance will be provided.
5. An analysis of the sustainability of each client requesting assistance will be conducted by the contractor. No assistance will be provided to an entity which is deemed to be insolvent or whose financial or managerial condition is such that project assistance will not prove beneficial in the long-run.
6. All clients assisted by the project must have majority Kenyan ownership.
7. By preference, the project will not assist well-established, large businesses which are judged fully capable of acquiring services similar to those offered by the project on a commercial basis.

8. The total value of services to be supplied directly to any one client (exclusive of the imputed labor cost of the project's three long-term technicians) will be not more than \$75,000 and not less than \$15,000. These costs will include needs assessment, utilization of short-term consultants and all types of training offered by the project. The objective is to maximize participation in the benefits of the project while not overtaxing the consultant team by spreading its services too thinly.
9. Half the project's clients, as well as approximately half its resources (plus or minus five percent) will be directed to the private sector, and half to the public sector. Ownership of more than fifty percent of the equity of any entity by the Government of Kenya will constitute the definition of a public sector organization.

While no strict criteria are established, the following guidelines should be taken into consideration:

- a. Geographic distribution. The availability of project services will be widely advertised throughout Kenya. All efforts should be made to ensure that project benefits are widely distributed on a geographic basis (i.e., not all project clients from one region or district of the country).
- b. Functional distribution. The project's clientele should be composed of a wide variety of the types of entities which operate in the agricultural sector (input suppliers, marketing organizations, manufacturers and food processors, extension services, cooperatives, etc.). The objective is to gain as wide an experience as practical with the full range of possible clients.

D. Implementation Schedule

The material on the following pages identifies key actions during the life of the project, indicates the relationship between those actions and identifies those responsible for their execution.

Projected Implementation Schedule

<u>MONTH</u>	<u>ACTION</u>	<u>PRINCIPAL RESPONSIBILITY</u>
0	Project Agreement Signed	GOK/USA ID
1	Conditions Precedent Met	GOK/USA ID
	Scope of Work for Contract Services Prepared	GOK/USA ID
	Initial Meeting of Coordinating Committee	Coordinating Committee
2	RFP for TA Contract Issued	GOK/USA ID
	PIO/C's for Initial Procurement Issued	GOK/USA ID
3	Solicitations for Initial Commodity Procurement	GOK/USA ID
4	Proposal Preparation	Prospective Contractor
5	Begin Contract Proposal Evaluation	GOK/USA ID
6	Complete Contract Proposal Evaluation	GOK/USA ID
	Begin Contract Negotiations	GOK/Contractor
7	Complete Contract Negotiations	GOK/Contractor
	Office Space Made Available at ARC	Egerton College
	Progress Review	Coordinating Committee
8	Contractor Mobilization	Contractor
9	Consultants Assume Duties	Contractor
	Begin Preparation of project Promotional Campaign	Contractor
10	Begin Promotional Campaign and Client Identification	Contractor
	Progress Review	Coordinating Committee
11	Project Promotional Campaign and Client Identification Continues	Contractor

<u>MONTH</u>	<u>ACTION</u>	<u>PRINCIPAL RESPONSIBILITY</u>
12	Initial Clients Selected	Contractor/CC
	Six-Month Work Plan prepared	Contractor
	Execute Needs Assessments for First Clients*	Contractor
13	Begin Consulting/Training Services for First Group of Clients	Contractor
	Progress Review	Coordinating Committee
14	Consultancy/Training Services for First Group of Clients Ends	Contractor
	End of Consultancy Reports Prepared for First Group of Clients	Contractor
	Needs Assessments for Second Group of Clients	Contractor
16	Consultancy/Training Services for Second Group of Clients Begins	Contractor
17	New Client Identification, if required	Contractors/CC
	New 6-Month Work Plan Prepared	Contractor
18	Consultancy/Training Services Second Group of Clients Ends	Contractor
	End-of-Consultancy Reports Prepared for Second Group of Clients	Contractor
	Needs Assessments Conducted for Third Group of Clients	Contractor

*This schedule assumes that 3 clients are serviced simultaneously, with the period of service extending over four months. The number of clients to be dealt with at any one time is illustrative only.

<u>MONTH</u>	<u>ACTION</u>	<u>PRINCIPAL RESPONSIBILITY</u>
19	Progress Review	Coordinating Committee
	Consultancy/Training Begins for Third Group of Clients	Contractor
20	Preparation of Terms of Reference for Evaluation	Coordinating Committee
21	End of Consultancy Reports for Third Group of Clients	Contractor
	Progress Report for First Group of Clients	Contractor
	Needs Assessment Begins for Fourth Group of Clients	Contractor
	(the pattern of provision of services continues in a similar manner throughout the life of the project; only other significant events will now be listed for the succeeding months).	
24	Evaluation Team Established	GOK/USAID
	Evaluation Begins	Evaluation Team
28	Evaluation Completed	Evaluation Team
35	Final Progress Review	Coordinating Committee
36	Final Report by the Contractor	Contractor
	Contractor Closes-Out Operations	Contractor/GOK/USAID
36	Project Close-Out	GOK/USAID

V. ILLUSTRATIVE FINANCIAL PLAN

A.I.D.'s current contribution to the project is \$1,000,000 and Kenya's contribution is \$1,042,000. Total project costs are estimated at \$4,042,000 of which A.I.D.'s total projected contribution, subject to the availability of funds, is \$3,000,000. An illustrative financial plan delineating the sources and uses of the funds currently available is provided as Attachment 1 to this Annex. Changes may be made to the plan by the representatives named in Section 8.2 of this Agreement without formal amendment to the Agreement. Such changes must not cause A.I.D.'s contribution to exceed the amount specified in Section 3.1 of the Agreement or the Cooperating Country's contribution to be less than the amount specified in Section 3.2 of the Agreement. The mutual agreement of the parties will be required when any implementation changes result in an adjustment in any line item of the illustrative financial plan by ten percent or more.

AID will fund the bulk of the cost of commodity procurement for the project, as well as evaluation and other direct costs associated with travel, transportation of effects of long-term personnel, per diem, operation and maintenance of vehicles and communications. All consultants from the U.S. will be totally funded by AID. Kenya will support the cost of rental and utilities for the project office and training facilities at the ARC and will provide working space for consultants at the offices of each client. Kenya will also provide in kind the value of time spent by the clients' personnel in training and consultation with the contractor's staff.

A special financial arrangement will be required to fund the costs of specific management consulting and training services to be provided to clients. Each client will be required to pay twenty-five percent of the total cost of services rendered for needs assessment work, all training, and short-term technical services provided from non-U.S. sources.

The technical assistance contract for the project will be organized so that AID will fund three-quarters of the total training budget and three-quarters of the total estimated person-months of short-term technical expertise to be provided under the project, with the exception of U.S. short-term personnel who will be funded in full by A.I.D.

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By contractual arrangement with each client, the contractor will obtain the client's required cash contribution. These funds will be deposited in a special account to be maintained by Egerton College. Egerton will be responsible for supplying the Coordinating Committee, the MOALD and USAID/Kenya with quarterly financial statements on the status of this account. The funds obtained from clients will be necessary to finance the balance of the project's activities including the provision of Kenyan and 3rd country short-term consultants and the provision of training services. This arrangement emphasizes the importance of the demand concept in execution of the project and will clearly indicate to the project's evaluators the interest of Kenyan institutions in obtaining services of the sort to be provided by the project.

Attachment 1 to Annex 1
Agricultural Management Project Agreement
Project No. 615-0221

PROJECT FINANCIAL PLAN
(Source and Application of Funding - \$'000's)

As of _____, 19

<u>PROJECT INPUTS</u>	<u>A.I.D.</u>	<u>GOVERNMENT OF KENYA</u>	<u>KENYA PRIVATE SECTOR</u>	<u>TOTAL</u>
Management Consulting/Needs Assessment	507	45	45	597
Training	110	85	85	280
Commodities	214	5	0	219
Operation and Maintenance	26	48	12	86
Local Personnel	0	296	240	536
Evaluation	0	0	0	0
Provision for Contingencies and Inflation	<u>143</u>	<u>101</u>	<u>80</u>	<u>324</u>
TOTAL	1,000	580	462	2,042

ANNEX 2

PROJECT GRANT STANDARD PROVISIONS

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 the Cooperating Country in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters, sequentially numbered, 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 consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project.

The Cooperating Country 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 a 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 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, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of the Cooperating Country.

(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 Cooperating Country, the Cooperating Country 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 Cooperating Country 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;

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(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

(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, and books, records, and other documents relating to the Project and the Grant.

SECTION B.6. Completeness of Information.

The Cooperating Country 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.

The Cooperating Country affirms that no payments have been or will be received by any official of the Cooperating Country 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 Cooperating Country.

SECTION B.8. Information and Marking.

The Cooperating Country 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 of the Cooperating Country 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 (and their personal effects) 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 Cooperating Country 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 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 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.

(d) Consulting firms used by the Cooperating Country 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 Cooperating Country for the Project but not financed under the Grant 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 Cooperating Country 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 Cooperating Country 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 Government has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

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(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 Cooperating Country, 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 Cooperating Country 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 both 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 Cooperating Country may be financed under the Grant, 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 Cooperating Country (or government of Cooperating Country), 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 Cooperating Country 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 Cooperating Country 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 Cooperating Country 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 Cooperating Country 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 Cooperating Country 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 Cooperating Country's country, are in a deliverable state and have not been offloaded in ports of entry of Cooperating Country'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 Cooperating Country 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 Cooperating Country 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 Cooperating Country 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) The right under subsection (a) or (b), 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.

(d) (1) Any refund under subsection (a) or (b), or (2) any refund to A.I.D. from a contractor, supplier, 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 cost of goods and services required for the Project, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Cooperating Country 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 Cooperating Country.

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 Cooperating Country agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Cooperating Country 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.