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A.I.D. Project Number 517-0214

GRANT AGREEMENT
Between
THE CENTRAL BANK OF THE
DOMINICAN REPUBLIC
: and
THE UNITED STATES OF AMERICA
for
COMMERCIAL FARMING SYSTEMS
(Rural Financial Services Component)

CONFIRMED COPY

Dated: AUG 31 1987.

GRANT AGREEMENT

Dominican Republic - Commercial Farming Systems

Rural Financial Services Component

Project No. 517-0214

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ANNEX 1: Definition of the Project

ANNEX 2: Standard Provisions Annex

GRANT AGREEMENT dated ~~1987~~ **AUG 31 1987**, between the CENTRAL BANK OF THE DOMINICAN REPUBLIC ("Grantee") and the UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D.").

ARTICLE I

The Agreement

The purpose of this Agreement is to set out the understanding 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 such Project by the Parties.

ARTICLE II

The Project

SECTION 2.1 Definition of the Project. The Project, which is further described in Annex 1, consists of assistance to the Grantee to improve the functioning of rural financial systems that provide access to savings and credit to farmers and marketers of non-traditional agricultural products. 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. "Project", as used in the text of this Agreement, refers to



the Rural Financial Services component of the Commercial Farming Systems project referred to in Annex I.

ARTICLE III

Financing

SECTION 3.1 The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement an amount not to exceed Two Million One Hundred Fifteen Thousand United States Dollars (US\$2,115,000) ("Grant"). The Grant is referred to as the "Assistance." The Assistance 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 Assistance, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the Grantee for the Project will be not less than the equivalent of One Million Seven Hundred and Eighty Three Thousand United States Dollars (US\$1,783,000), including costs borne on an "in-kind" basis.

SECTION 3.3 Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is June 30, 1992 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 Assistance will have been performed and all goods financed under the Assistance 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 Assistance 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 described 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., by giving notice in writing to the Grantee, may at any time or times reduce the amount of the Assistance by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation described in Project Implementation Letters, were not received before the expiration of said period.

ARTICLE IV

Conditions Precedent to Disbursement

SECTION 4.1 First Disbursement. Prior to first disbursement of the Assistance, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as



A.I.D. may otherwise agree to in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of the Legal Advisor to the Grantee that this Agreement has been duly authorized and executed on behalf of the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

(b) A 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;

(c) Evidence that the equipment and vehicles that have been funded by A.I.D. for the Rural Savings Mobilization Project (517-0179) have been assigned for use by the Rural Financial Services Component of the Project;

(d) Procedures and financial controls/audit plans for the Administrative Loan Fund and the Stabilization/Reserve Fund, as such terms are defined in Annex I; and

(e) An initial first year implementation plan for the Rural Financial Services Component component of the Project.

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 Grantee.

SECTION 4.3 Terminal Date for Conditions Precedent. If all of the conditions specified in Section 4.1 have not been met within sixty (60)



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 Grantee.

ARTICLE V

Special Covenants

SECTION 5.1 Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties may otherwise agree in writing, the program will include annual evaluations during the implementation of the Project and at least one more at the Project conclusion. The evaluation will include, but not be limited to:

- (a) evaluation of progress toward attainment of the objectives of the Project;
- (b) identification and evaluation of problem areas or constraints which may inhibit such attainment;
- (c) assessment of how such information may be used to help overcome such problems; and
- (d) evaluation, to the degree feasible, of the overall development impact of the Project.

SECTION 5.2 Evaluation Plan. Except as A.I.D. may otherwise agree in writing, the Grantee will prepare and submit in form and substance acceptable to A.I.D., within 12 months of the signing of this Agreement, a time phased plan for evaluation described in Section 5.1. The costs of the evaluations will be paid with Project funds.

SECTION 5.3 Annual Audits The Parties agree to establish a plan of outside audits for the Project. An independent audit firm will be



contracted by the Grantee each year to perform a financial and compliance audit in accordance with U.S. Government audit procedures. The costs of such audits will be paid with Project funds. The Grantee will provide every reasonable assistance to facilitate the performance of these audits and will provide copies of the complete audit reports to AID on a timely basis. In addition, the Grantee will instruct the auditors to provide any additional reasonable supporting documentation requested by AID.

ARTICLE VI

Procurement Source

SECTION 6.1 Foreign Exchange Costs. Except as A.I.D. may otherwise agree in writing, 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 suppliers of services their nationality in the United States or the Dominican Republic, except as provided in the Standard Provisions Annex. 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 their origin in the Dominican Republic ("Local Currency Costs"), except as A.I.D. may otherwise agree in writing.



ARTICLE VII

Disbursements

SECTION 7.1 Disbursement for Foreign Exchange Costs

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Assistance 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 described in Project Implementation Letters, (i) requests for reimbursement for such goods or services, or (ii) requests for A.I.D. to procure commodities or services in the Grantee behalf for the Project; or,

(2) By requesting A.I.D. to issue Letters of Commitment for specified amounts (i) 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 Letter of Credit or otherwise, for such goods or services, or (ii) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

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



SECTION 7.2 Disbursement for Local Currency Costs. After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Assistance 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 described in Project Implementation Letters, requests to finance such costs. The Local Currency needed for such disbursement may be obtained through acquisition by A.I.D. with U.S. Dollars or from Local Currency already owned by the U.S. Government.

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

SECTION 7.4 Rate of Exchange. If funds provided under the Assistance are introduced into the Dominican Republic by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into currency of the Dominican Republic at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Dominican Republic.

SECTION 7.5 Date of Disbursement. Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Grantee or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract or purchase order; or (b) on the date on which A.I.D. disburses to the Grantee or its designee local currency acquired in accordance with Section 7.2.



ARTICLE VIII

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 address:

To the Grantee

Mail Address: Central Bank of the Dominican Republic
P.O. Box 1347
Santo Domingo, Dominican Republic

Cable Address: BANCO CENTRAL
Telex No. ITT 3460053
Santo Domingo, Dominican Republic

To A.I.D.:

Mail Address: USAID Mission to the Dominican Republic
c/o American Embassy
Santo Domingo, Dominican Republic

Cable Address: USAID Santo Domingo

All such communications will be in English or Spanish, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

SECTION 8.2 Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of the Governor of the Central Bank, and A.I.D. will be represented by the individual holding or acting in the office of the Director, each of whom, by written notice, may designate



additional representatives for all 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 instruments signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

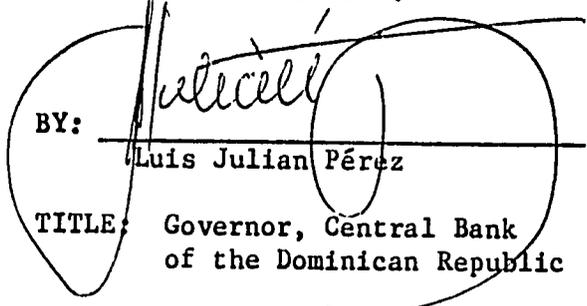
SECTION 8.3 Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

SECTION 8.4 Language of Agreement. This Agreement is prepared in both English and Spanish. In the event of ambiguity or conflict between the two versions, the English language version will control.

IN WITNESS WHEREOF, the Central Bank of the Dominican Republic and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in two originals in their names and delivered as of the day and year first above written.

FOR THE CENTRAL BANK OF
THE DOMINICAN REPUBLIC:

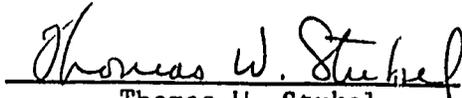
BY:


Luis Julian Pérez

TITLE: Governor, Central Bank
of the Dominican Republic

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

BY:


Thomas W. Stukel

TITLE: Director
USAID/Dominican Republic

PROJECT DESCRIPTION

Commercial Farming Systems: Rural Financial Services Component

A. Goal and Purpose

The goal of the Commercial Farming Systems Project is to contribute to sustained and equitably distributed economic growth in the Dominican Republic by accelerating the movement of the agricultural sector into non-traditional crops, thereby increasing small farmer incomes and rural employment, and earning or saving foreign exchange. The purpose of this Project is to increase production of non-traditional crops through expanded farmer linkages with agribusinesses and direct access to credit and improved technology.

B. Overall Expected Impact/Achievements

At the conclusion of this five year Project, the following key outputs (among others) will be achieved:

- Agribusinesses using outgrower contracts will have been financed, involving 6,000 small and medium-scale producers; and will generate approximately US\$12 million of increased value added in agriculture per year beginning in year 4;
- At least 31 credit unions will provide financial services to 19,000 smaller rural clients;
- Policy and procedural changes that promote rural banking institutions will be established and implemented;
- Over 2000 individuals will have received training in rural financial institution management and non-traditional crop production, mostly in-country; and
- The private sector-financed and directed agricultural research foundation (covered by a separate agreement) will have assumed increased responsibility for sponsoring technology development and transfer.

This Annex describes the Rural Financial Services component of the Commercial Farming Systems Project. The other components are covered by separate agreements, and include a loan-funded bridge credit activity with the GODR, and a grant for agricultural technology development with the Agricultural Development Foundation.

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C. Rural Financial Services

a. Objectives: The objectives of this Project component are: (1) to promote the development and expansion of financially viable, base-level rural financial institutions, such as credit unions, to provide cost-effective savings/lending financial services to rural households; (2) to improve the GODR and Central Bank's ability to formulate, and implement sound rural banking policies and procedures; (3) to consolidate rural financial services policy and management improvements in the Agricultural Bank (BAGRICOLA) resulting from the Rural Savings Mobilization (RSM) Project; and (4) to initiate a program of rural savings in the Banco de Reservas (Reserve Bank).

Achievement of these objectives will be indicated by:

(1) 31 viable credit unions (CUs), providing financial services to over 19,000 rural households and mobilizing savings deposits estimated in excess of RD\$18.0 million (approximately US\$6.0 million) from a base of 4 that have mobilized RD\$4.8 million;

(2) A self-financing credit union association, comprised of the CUs strengthened under this Project, managing a stabilization/reserve fund to provide financial stability, as well as assisting CUs to obtain advice and training;

(3) Increased savings mobilization and consolidated institutional reforms in BAGRICOLA, to a point where savings mobilized from the public reach a level of RD\$26 million, compared to RD\$15 million at present;

(4) Establishment of a rural savings program in the Banco de Reservas that mobilizes savings deposits estimated in excess of RD\$15 million.

(5) Strengthened capacity in the Central Bank to analyze and establish banking policy and procedures which will result in interest rate policies and banking regulations to foster the development of a sound financial intermediation system, marked by improved volume and quality of financial services in the rural areas; and

(6) Strengthened linkages between CUs and the rest of the banking system.

b. Activities and Organizations

In order to achieve the above objectives, the Project will seek through the Rural Savings Mobilization Office to (1) technically strengthen existing credit unions through field-level training, advisory services, and administrative loans; (2) provide these CUs with financial stability during times of liquidity shortages through a Stabilization/Reserve Fund; (3) assure long-term support through a CU association, and (4) improve the policy and interest rate environment for rural banking.

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(1) Credit Union Strengthening and Expansion/Administrative Loan Fund

This activity will expand the results of the RSM Project beyond its pilot effort by providing direct technical assistance and administrative support loans to selected CUs to improve their accounting and financial management systems.

The Central Bank Rural Savings Mobilization staff will select four to six additional CUs per year to participate in the program. Among the criteria to be used to select an existing CU for the program are:

- The economic growth potential of the municipality or town;
- Interest of the credit union membership in participating;
- Status and amount of outstanding debt with second level cooperatives or other organizations (to reduce the risk that savings mobilized would be subject to legal proceedings in a bankrupt credit union); and
- A minimum level of financial health and indications of managerial capacity potential in the institution.

The existing staff of the RSM Office in the Central Bank will contract additional technicians who will apply the phased methodology they have been using for strengthening of CUs. They will analyze the financial and accounting operations and financial status of the CU over the last four to six years, and report their findings to the CU officers, along with recommendations for changes in interest rate policies, financial operations and controls. The team will assess the size and trends of the community that the CU serves, to determine whether there is a promising financial market for expanded capture of savings, and for production and consumer lending. Recommendations will also include matters related to the physical appearance and security of the CU's site, the need for fulltime trained staff with operational authority, and a suggested timetable of changes and advice and training that the RSM unit can provide.

Once assessed and selected under the above criteria, a credit union will receive intensive technical assistance to review and reorient its management, portfolio composition, reserves, accounting practices, collection methods and other policies and procedures in order to ensure successful financial management. CUs initiating rural savings deposit mobilization activities need to make minimal infrastructure improvements and have a staff with accounting experience, to encourage existing or potential members to place their savings in a credit union. The CUs that show a willingness to adopt reforms will have access to the Administrative Loan Fund created with the equivalent of US\$335,000 of local currency counterpart under the Project. CUs can borrow for improved facilities and equipment, and some of the operating costs associated with an expansion of financial services.

The RSM office will control this fund until the CU association is ready to take it over, at which time the Central Bank will transfer the portfolio of the Administrative Loan Fund to the association. The reflows would then be used by the association for further expansion of the program.

AID and the RSM Office shall jointly determine the terms and conditions to be contained in any agreements to be executed by the CUs concerning participation in the Administrative Loan Fund.

(2) Stabilization/Reserve Fund

The Stabilization/Reserve Fund now being managed by the RSM Office will be expanded. The purpose is to minimize the portfolio diversification and seasonal risks that any financial institution linked to a local rural economy faces. These include unexpected draw-downs on members' deposits in the CU; or declines in loan repayments as a result of a temporary condition (such as drought) that may affect the local economy. This fund will be used solely to provide short-term credit (3-6 month maximum) for CUs experiencing these temporary liquidity shortfall situations. The CU accessing the fund would pay the banking institutions directly for the use of these funds. The interest rate charged the CU will be high enough to discourage its use for routine on-lending to members.

CUs will capitalize the Stabilization/Reserve Fund by depositing a minimum of ten percent of all resources they mobilize from share accounts, passbook savings accounts, time deposits or other such deposit liabilities. This will be drawn from their existing 20% reserve requirement (held as cash, or deposited elsewhere), and will be simply transferred to this Stabilization Fund. These funds will be reinvested in financial certificates or other similar financial instruments with a high rate of return. A line of credit will be obtained from the bank designated by the RSM Office (or CU association) to hold the Fund, which could be accessed by a CU experiencing temporary cash flow problems.

The interest rate differential or margin between what the CUs would receive from deposits into the Fund and the earnings of the Fund's investments will be used to pay the expenses of the credit union association (monthly meetings, promotional activities), and to capitalize the Fund. The individual CU will earn a rate of interest at least equal to the rate paid on a passbook savings account in a commercial bank.

During the life of Project, the Stabilization Fund will be managed by the RSM Office. The Office will approve access to the line of credit upon review of a CU's request to utilize it. If a CU should decide to withdraw from the Fund, its share will be returned to it. Management of the Fund will be turned over to the credit union association by the end of the Project, following an assessment of the association's ability to manage it.

Technical assistance will be provided under the Project to establish the Fund mechanism, the management procedures for the operation of

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the Fund, and ultimate transfer of the Fund to the credit union association. This transfer process would begin in year 4 of the Project, after training the CU association staff.

AID and the RSM Office shall jointly determine the terms and conditions to be contained in any agreements to be executed by the CUs with respect to the Sabilization/Reserve Fund, and by the bank designated to hold this Fund.

(3) Credit Union Association

There is a need for a credit union association to serve as a representative body for the CUs, able to (a) provide a forum for discussion of technical issues among CUs; (b) take over management of the Administrative Loan Fund and the Stabilization/Reserve Fund; and (c) continue to arrange training and advisory services to promote and develop additional CUs once AID support terminates. The Project will assist the four original RSM CUs to establish the association. Technical assistance will be provided to develop a time-phased organizational plan for the association to gradually evolve into an institution providing cost-recoverable services.

At the end of the Project, this association will have a staff of two or three persons that can manage the Administrative Loan and Stabilization/Reserve Funds, and contract for training or advisory services. By the end of the Project, the association will also be providing guidance through promotional seminars, targeted at specific communities or groups that are interested in developing or strengthening the CUs in their areas.

(4) Policy Improvement and Bank Management Consolidation

The supply of rural financial services is strongly influenced by the regulatory and policy environment of the financial market. These policies and regulations determine the allocation of funds among sectors of economic activity, and affect the relative profitability of different classes of loans and of deposit mobilization instruments. Important policy reforms are needed to strengthen rural financial markets, but these reforms cannot be undertaken in isolation from general issues of market structure and regulation.

USAID, the GODR, and the Central Bank agree that there is a continuing need to provide such assistance. Specialists will assist the monetary authorities to analyze and develop specific recommendations regarding issues that are important to the GODR and the USAID's policy dialogue. Among some of the issues identified by Central Bank management are: (a) the appropriate incentives to promote rural branching and bank decentralization; (b) the feasibility and organization of a deposit and loan insurance mechanism to reduce risk to rural banks; (c) the regulation of various types of financial institutions; (d) the need to revise targeted lending programs and interest rate policies; and (e) the structure and application of simplified legal-reserve requirements. This list is illustrative of the types of issues that may be studied during the course of this Project.

Under the guidance of a Central Bank policy committee that has been working with the RSM staff and advisors, the RSM Office will request and monitor the short-term technical assistance to be provided by the Project for policy studies. The policy committee will identify relevant policy issues and meet to consider the results and recommendations the position papers developed under the Project.

Similar short-term technical assistance will also be available to the Agricultural Bank in both policy and bank management areas. Areas of short-term technical assistance that will be required for BAGRICOLA are: branch level management/operations training, interest rate policy, and promotion of banking relationships with CUs. These services will be provided under the existing institutional mechanism between the RSM Office and the BAGRICOLA's Programming and Savings Mobilization Departments. We estimate that with this assistance about RD\$15 million (approximately US\$5 million) additional deposits can be mobilized by the BAGRICOLA.

The Banco de Reservas has expressed interest in mounting a rural savings program through its branch system. During the initial phases of the expansion of this component, the RSM staff and its AID-funded advisors will assess the existing regulations and procedures within the Banco de Reservas in order to assess which of these may need modification. The team will then be in a position to draw up a program of recommended reforms, technical assistance, and training in order to support the institution's rural savings program. Some of this may be accomplished by including Banco de Reservas personnel in activities and training planned for the BAGRICOLA.

D. Inputs

1. A.I.D. Resources

Long-term Technical Assistance (US\$890,000): The Project will provide funds to finance long-term technical assistance to the RSM Office. The long-term technical assistance will be provided by a banking and finance specialist who will be contracted for a 4-1/2 year period. This specialist will assist the coordinator of the Central Bank's RSM Office to plan and implement the credit union strengthening/Administrative Loan Fund program; expand the Stabilization/Reserve Fund; and provide assistance with the transfer of key functions to the CU association. This specialist will also assist in the programming of additional short-term technical assistance for these activities and for the policy studies. This individual will have previous experience in banking and operation of base-level CUs and second-level organizations.

Short-term Technical Assistance (US\$921,000): The A.I.D. grant will provide funds for short-term advisors in the areas of banking/finance (particularly portfolio management and margin analysis), accounting, and second-level CU organizations. These individuals will support the long-term advisor by providing intensive training to the accounting and banking/finance technicians working in the RSM Office of the Central Bank. This in-country

training will cover (a) the financial evaluation of CUs selected to participate in the program, (b) planning and delivery of technical assistance to the participating CUs, (c) planning and delivery of training programs for CU personnel, and (d) establishing financial performance targets and evaluation of the CUs receiving assistance. The second level organization specialist will assist the CU association to develop a program of services for member CUs as well as assist in the transfer from the Central Bank of the Stabilization/Reserve Fund. A computer/information specialist will also help selected CUs, the credit union association and the RSM Office to improve systems for the operation of their accounts, especially for the Administrative Loan and Stabilization/Reserve Funds, as well as setting up computerized performance tracking systems. Over the LOP, an estimated 44 person months of external short-term technical assistance is planned to assist in the credit union strengthening and expansion activity.

The Project will provide 20 person months of short-term services by banking/monetary policy and bank management specialists to assist the Central Bank authorities, the Agricultural Bank, and the Banco de Reservas in the design and execution of policy studies and management improvements. The Central Bank will participate in the selection of the expatriate specialists.

Commodities (US\$53,000): The Project will finance the purchase of three four-wheel drive vehicles to support the Rural Financial Services activities. One will be for the use of the Project advisor and two for the RSM Office technicians. In addition, all vehicles and other equipment purchased with existing RSM Project grant and local currency counterpart funds will be transferred to support the expanded Rural Savings Mobilization Office under this Project. All other materials, such as office supplies, will be supplied by the Central Bank as in-kind contributions to the Project.

Training (US\$62,000): 15 participants will be financed under the A.I.D. grant to receive a two week course given by INCAE in Miami, Florida. This INCAE course will train bank managers from CUs, BAGRICOLA branch offices, the Banco de Reservas (if found to be needed) and the CU association in advanced banking and financial management.

Training for credit union managers, board members and staff, and for the association staff will be conducted in-country by the technical assistance advisors provided under the Project. As logistic costs for this will be financed with counterpart resources, this training is described under GODR Resources, below.

Audits and Evaluations (US\$189,000) These funds will be used for annual outside audits of the Administrative Loan Fund, the Stabilization/Reserve Fund, and the operations of the RSM Office and the CU association, as well as for the conduct of a mid-term evaluation of Project effectiveness.

2. GODR Resources*

Short-term Technical Assistance (US\$290,000): 20 person months of short-term technical assistance in banking/monetary policy and bank management will be financed with local currency counterpart. Studies will be conducted primarily by bank staff with the assistance of Dominican specialists in rural finance and related policies and banking procedures, contracted by the RSM Office.

Commodities (US\$9,000): Commodities such as five sets of office furniture and related office equipment to equip the RSM Office will be purchased locally, or provided by grants-in-aid.

Training (US\$353,000): Five individuals from each credit union will receive formal course training -- a total of approximately 160 individuals over the life of Project. Topics such as development of credit union accounting systems, preparation of balance sheets and profit and loss statements, interest rate margin analysis, loan portfolio management and diversification, liquidity management, and marketing of services will be covered. Staff of all participating CUs will be expected to attend a basic series of practical training sessions covering these topics. In addition, the credit union association's staff and board of directors (15 individuals) will be trained in investment policy, interest rate margin analysis, and development/marketing of services to member CUs. Four training seminars per year for BAGRICOLA staff will also be financed, with approximately 50 participants per seminar, for a total of 1000 participants during the five-year life of the Project. These seminars would mainly train participants in loan portfolio management and savings mobilization techniques. As the Project ends, training will be contracted with local institutions by the CU association.

Local currency programmed through the RSM will be used to pay per diems, rental of space and other logistical costs of the in-country training to be provided by technical advisors.

Administrative Loan Fund (US\$335,000): The Central Bank will add funds to the existing administrative grant fund, converting it to a loan fund. This will be incrementally funded as the CU assistance activity's clientele expands.

Personnel and Operating Costs of RSM Office (US\$710,000): Local currency counterpart will finance ten professional and support staff in the

* See footnote on Table 1.

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RSM Office of the Central Bank, consisting of a Project coordinator, five technicians with accounting or banking backgrounds, a computer/data management technician, an administrative assistant, a secretary and messenger/chauffeur. The five technicians will work directly with the CUs and the CU association. Existing staff will be retained, and will select additional qualified personnel. Three Peace Corps volunteers will also be working with the local technicians and have their per diems covered by the RSM Office. The Office, under the management of the coordinator, will control disbursements of funds, contract and supervise the technicians and other staff, and local advisors, and administer all of the daily business of its activity. This office will be a unit within the Central Bank's organizational framework.

D. Financial Plan

Table 1 on the following page shows the financial plan for this component of the Project, including US\$86,000 for contingencies. Counterpart contributions of the GODR will be in pesos, computed at the highest rate obtainable at the time of contribution, or on the date such contributions are due, whichever is earlier. Table No. 2 shows the financial plan for the counterpart funds.

E. Methods of Implementation and Financing

Table 3, attached, shows the implementation methods that will be used, and the way funds will be administered for this component.

Table 1
 COMMERCIAL FARMING SYSTEMS Rural Financial Services
 SUMMARY COST ESTIMATE AND FINANCIAL PLAN (US\$000)*

Input	YEAR 1			YEAR 2			YEAR 3			YEAR 4			YEAR 5			TOTAL	
	FX	A.I.D. LC	CP LC	AID	CP												
1. Long-term T.A.	93			185			194			204			214			890	
3. Short-term T.A.	156		48	163		52	172		57	195		63	235		70	921	270
2. Commodities	53		9													53	9
2. Training	12		67	13		51	12		77	12		62	13		96	62	353
2. Admin Loan Fund																	
Capital			58			68			86			68			55		335
2. Operating Costs			116			128			141			155			170		710
3. Audits		30			32			35			38			41			176
1. Evaluation							13										13
2. Contingencies			15			15			18			18			20		86
TOTAL	314	30	314	361	32	315	391	35	379	411	38	367	462	41	411	2,115	1,783

NOTE: For the purposes of this table, counterpart is computed at RD\$3.70 = US\$1.00. The amount of pesos to be contributed to the loan fund is subject to renegotiation during the life of the Project to reflect economic conditions and Project requirements at the time contributions are made. Contributions to the Administrative Loan Fund are considered due on the first day of each project year. The beginning of the first project year is the date of the agreement.

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Table 2
Rural Financial Services
Counterpart Budget (RD\$)

LINE ITEMS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
PERSONNEL						
Project Coordinator	36000	39600	43560	47916	52708	219784
Administrative Assistant	21600	23760	26136	28750	31625	131871
Bilingual Secretary	9600	10560	11616	12778	14055	58609
Messenger/Chouffer	5640	6204	6825	7507	8258	34434
Computer Technician	10800	11880	13068	14375	15812	65935
Accounting/Finance Technician	19200	21120	23232	25555	28111	117218
Accounting/Finance Technician	19200	21120	23232	25555	28111	117218
Accounting/Finance Technician	19200	21120	23232	25555	28111	117218
Accounting/Finance Technician	19200	21120	23232	25555	28111	117218
Accounting/Finance Technician	19200	21120	23232	25555	28111	117218
Subtotal	179640	197604	217365	239101	263013	1096723
OTHER PERSONNEL COSTS						
Thirteenth month (10% An. Salary)	17964	19760	21736	23910	26301	109671
Vacation (Annual Salary/52 weeks)	3455	3800	4180	4598	5058	21091
Health/Life Insur. (4.95% Salary)	8893	9782	10760	11836	13020	54291
Subtotal	30312	33342	36676	40344	44379	185053
TOTAL PERSONNEL	209952	230946	254041	279445	307392	1281776
OPERATING COSTS						
In-country Per diem	65280	71808	78989	86888	95577	398542
Per diem for 3 Peace Corps Vol.	34560	38016	41818	45999	50599	210992
Vehicle Operation/Maintenance	70000	77000	84700	93170	102487	427357
Photocopier Maintenance	4800	5280	5808	6389	7028	29305
Office Materials	10000	11000	12100	13310	14641	61051
Off. Equipment Maintenance/Repair	6600	7260	7986	8785	9663	40294
Subtotal	191240	210364	231401	254541	279995	1167541
RESEARCH ACTIVITIES	167400	182100	198220	216000	236280	1000000
ADMINISTRATIVE LOAN FUND	200000	235000	298000	232000	191700	1156700
TRAINING SERVICES & DISEMINATION						
Credit Union Training	140000	77000	158400	87120	191664	654184
CU Assoc. Training				8760	8760	17520
BAGRICOLA Training	50000	55000	60500	66550	73205	305255
Disemination, Publications	40000	44000	48390	53250	58560	244200
Subtotal	230000	176000	267290	215680	332189	1221159

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LINE ITEMS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
EQUIPMENT						
One (1) Typewriter	2875					2875
One (1) Photocopier	23000					23000
Two (2) Files	1035					1035
One (1) Executive Chair	400					400
Two (2) Secretarial Chairs	420					420
Six (6) Desk Calculators	2300					2300
Three (3) Desks	2070					2070
Subtotal	32100					32100
CONTINGENCY (5%)	51535	51721	62448	59883	67378	292964
RD\$ TOTAL	1082227	1086131	1311400	1257549	1414934	6152240
US\$ TOTAL	313689	314820	380116	364507	410126	1783258
Exchange Rate: US\$1.00 = RD\$	3.45					

Table 3
 COMMERCIAL FARMING SYSTEMS: Rural Financial Services
 METHODS OF IMPLEMENTATION AND FINANCING
 (AID Inputs)

Type of Assistance	Implementation Method	Financing Method	Cost (US\$000)
A. Long-term TA	AID Direct PSC	Direct Pay	890.00
B. Short-term TA	AID Direct Buy-in S&T/RD	Direct Pay	921.00
C. Vehicles	AID Direct P.O.	Direct Pay	53.00
D. Training (INCAE)	AID Direct Contract/Non-Profit	Direct Pay	62.00
E. Audits	AID Direct Contract/Profit	Direct Pay	176.00
F. Evaluation	AID Direct Contract/Profit	Direct Pay	<u>13.00</u>
TOTAL			2,115.00

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A.I.D. GRANT AGREEMENT NO. 517-0214

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 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

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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 the 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 Dominican Republic, 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

(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 Grant.

SECTION B.6 Completeness of Information. The Grantee confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or cause 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;

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

SECTION B.7 Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

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

ARTICLE C

Procurement Provisions

SECTION C.1 Special Rules.

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

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

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

(d) Transportation by air, financed under the Grant, of property or persons, will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2 Eligibility Date. No goods or services may be financed under the Grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3 Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Grantee will furnish to A.I.D. upon preparation,

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Grant, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished to A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating 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 standards and measurements commonly used in the United States.

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

(d) consulting firms used by the Grantee for the Project but not financed under the Grant, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Grantee for the Project but not financed under the 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 Grantee will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6 Shipping.

(a) Goods which are to be transported to the Dominican Republic may not be financed under the Grant if transported either: (1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Grant, if such goods or persons are carried: (1) on an ocean vessel under the flag

of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source. Foreign Exchange Costs", without prior written A.I.D. approval; or (2) on an ocean vessel which A.I.D., by written notice to the Grantee, has designated as ineligible; or (3) on an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Grantee on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to 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 Dominican Republic may be financed as a Foreign Exchange Cost under this Agreement provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder

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

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

SECTION D.1 Termination. Either Party may terminate this Agreement by giving the other Party 30 days written notice. Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of Grantee's country.

SECTION D.2 Refunds.

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

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(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under the Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefore.

(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 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.

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