

UNITED STATES GOVERNMENT

Memorandum

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TO : Distribution

DATE: February 19, 1980

FROM : ASIA/PD/EA, M. Milburn Pehl *MP*

SUBJECT: INDONESIA: Project No. 497-0285
Rural Works II
A.I.D. Grant Agreement and Amendment No. 1

One copy each of the subject documents are enclosed for your information and files.

Attachment: a/s

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FM/LD:ASmith

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ASIA/PD



PROJECT NO. 497-0285

PROJECT
GRANT AGREEMENT
BETWEEN
THE REPUBLIC OF INDONESIA
and
THE UNITED STATES OF AMERICA
for
RURAL WORKS II

Date: April 19, 1979

RURAL WORKS II PROJECT
Project Grant Agreement

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A.I.D. PROJECT NO. 497-0285

PROJECT GRANT AGREEMENT

Dated: April 19 1979

Between Government of Indonesia.

And The United States of America, acting through the
Agency for International Development ("A.I.D.").

Article 1: THE AGREEMENT

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Grantee of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: THE PROJECT

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, will consist of financing the foreign exchange and local currency costs of technical assistance for Grantee's rural works program. Such services are designed to assist in the selection of subprojects, to provide advice regarding design and construction of the Research and Training Center and to improve the quality of overall management of the program.

Annex 1, attached which forms a part of this agreement, amplifies the above definition of the Project. Within the limits of the above definition of the Project, elements of

the amplified description stated in Annex 1, may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this Agreement.

SECTION 2.2. Incremental Nature of Project

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

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

Article 3: FINANCING

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed One Million United States ("U.S.") dollars (\$1,000,000) ("Grant").

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

SECTION 3.2. Grantee Resources for the Project

(a) The Grantee agrees to provide or cause to be provided for the Project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner. The Government of Indonesia agrees that its contribution will be provided on a timely basis.

(b) The resources provided by Grantee for the total Project (Grant and Loan) will be not less than the equivalent of Thirteen Million Nine Hundred Thousand United States Dollars (\$13,900,000) including costs borne on an "in-kind" basis.

SECTION 3.3. Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is April 19, 1983 or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would

authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

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

Article 4: CONDITIONS PRECEDENT TO DISBURSEMENT

SECTION 4.1. First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) 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.

(b) An executed contract for technical assistance services for the Project acceptable to A.I.D. with a firm acceptable to A.I.D.

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 Dates for Conditions Precedent.

If the conditions specified in Section 4.1 have not been met within 90 days from the date of this Agreement or such later date or dates as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

Article 5: SPECIAL COVENANTS

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

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

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

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

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

Article 6: PROCUREMENT SOURCE

SECTION 6.1. Foreign Exchange Costs. Disbursements pursuant to Section 6.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the United States except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance.

SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 will be 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 Indonesia ("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 the condition precedent,

the Grantee may obtain disbursement of funds under the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

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

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

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

SECTION 7.2. Disbursement for Local Currency Costs.
After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for local

Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

These disbursement may be made by A.I.D.:

(1) In U.S. dollars equivalent to the local currency cost, or

(2) In local currency acquired by A.I.D. by purchase or from local currency already owned by the U.S. Government.

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. If funds provided under the Grant are introduced into Indonesia 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 Indonesia at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Indonesia.

Article 8: MISCELLANEOUS

SECTION 8.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by

telegram or cable; and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee

Mr. Arie Benggolo MT
Acting Director General of
Manpower Development and Utilization
Ministry of Manpower and Transmigration
Jalan H. Agus Salim 58
Jakarta

To A.I.D.:

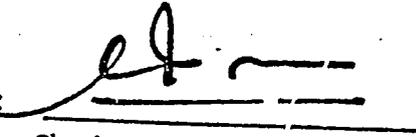
Mr. Thomas C. Niblock
Director
U.S. Agency for International Development
American Embassy
Jl. Medan Merdeka Selatan 5
Jakarta, Indonesia.

SECTION 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individuals holding or acting in the office of Director General of Manpower Development and Utilization and A.I.D. will be represented by the individual holding or acting in the office of Mission Director USAID Mission to Indonesia, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any 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.

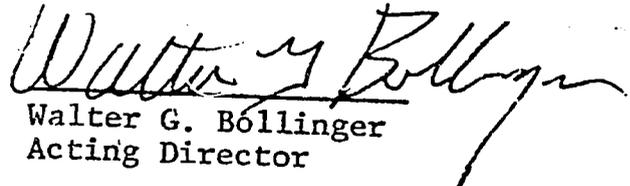
IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative(s), have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

THE REPUBLIC OF INDONESIA

By: 

Chairul Basri
Secretary General
Department of Manpower

UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT

By: 
Walter G. Bollinger
Acting Director

Amplified Description of the Project
(Same for Loan and Grant Agreement)

1. Purpose: To assist the Government of Indonesia (GOI) to improve the institutional capability to manage the Padat Karya (PKGB) program, to increase employment and income for the rural poor, and to increase food production.

2. Financing: The Project will be financed from funds provided by A.I.D., the Government of the Netherlands (GON) and the Government of Indonesia (GOI). AID will provide in US FY 1979 up to \$8,000,000 in loan funds (AID Loan No. 497-T-056) and up to \$1,000,000 in grant funds (AID Grant No. 497-0285). These funds will assist the GOI in carrying out its Padat Karya Gaya Baru (PKGB) program for fiscal years 1978/79 and 1979/80. The Government of the Netherlands will provide at least \$2,200,000 and the GOI agrees to provide not less than \$13,900,000 making total funds available for the Project of \$25,100,000 as described in the attached Financial Plan.

Subject to the availability of funds, an additional \$8,000,000 of loan funds and \$1,000,000 of grant funds will be made available in US FY 1980, by amendment to this agreement, to assist the IFY 1979/80 and 1980/81 PKGB

program and additional \$9,000,000 of loan funds and \$1,000,000 of grant funds will be made available in US FY 1981 to assist the IFY 1980/81 and 1981/82 PKGB program. This would increase the loan amount to \$25,000,000 and the grant amount to \$3,000,000, thus making a total A.I.D. contribution of \$28,000,000. At such time the GOI will provide an additional amount of not less than \$32,440,000 for the Project making a total GOI contribution of \$46,340,000. Thus, subject to the availability of funds, the total contribution of A.I.D., the GON and the GOI for the project would be not less than \$76,540,000.

Changes up to 30 percent may be made to line items amounts shown in the Financial Plans (attached) for this phase without formal amendment of this Agreement provided that A.I.D. approves any such changes in writing, and that the total A.I.D. contribution is not increased or the Borrower's agreed contribution for this phase is not decreased below that shown on the applicable plan.

3. Targets: The Project will generate employment (short and long term) and income for rural poor people through the construction, operation and maintenance of small, useful physical infrastructure, such as irrigation/
~~flood control~~

canals, village roads, terracing, reforestation, etc. In addition, food production will be increased and rural incomes will be raised as a result of increased economic activity from completed sub-projects. The skills of Department of Manpower (DMP) and local government officials will be expanded and upgraded in the areas of subproject selection, planning, construction, maintenance and evaluation. Improved local government planning will result in PKGB being integrated cross-sectorally with other local development activities.

The Project outputs over a three (3) year period should include: (a) constructing about 1480 sub-projects; (b) training about 2500 DMP and local officials; and (c) constructing and equipping a labor intensive technology research/training center.

4. Project Management: The DMP Directorate for Development and Expansion of Employment will have overall responsibility for general guidance and implementation with the assistance of the technical advisory team being financed by an AID grant. DMP officials at provincial and district level, in cooperation with local government officials, are directly responsible for selecting, planning and carrying out the PKGB

subprojects. Public Works personnel in each province will aid in the preparation of sub-project designs and construction supervision.

5. Project Duration: April 1979 through March 1983.
6. Implementation Reimbursement: DMP monitors the project in cooperation with AID to insure compliance with jointly approved project description, selection criteria, plans/specifications and cost estimates. A host country contract between DMP and a US consulting firm provides technical assistance. Disbursements for foreign exchange costs may be by letter of commitment. Fixed Amount Reimbursement (FAR) may be used for local currency costs.

RURAL WORKS II
PROJECTION OF EXPENDITURES
(US \$000)

FISCAL YEAR	A I D				GON	GOI	TOTAL
	L O A N		G R A N T				
	FX	LC	FX	LC			
<u>US FY 1979</u>							
1. FAR-Subprojects		6,300			2,200	5,500	14,000
a. 400 Constructed						2,500	2,500
b. 80 Constructed							
2. Technical Assistance			580	120		150	850
a. 72 MM LT Advisors			200			50	250
b. 18 MM ST Consultants							
3. Training		100				100	200
a. In-country - 600	100						100
b. Overseas - 50							
4. Research/Training Center Land Develop- ment		1,000				1,200	2,200
5. PKGB Operations						3,000	3,000
Contingency		500	95	5		1,400	2,000
TOTAL	100	7,900	875	125	2,200	13,900	25,000

RURAL WORKS II
SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(US \$000)

INPUTS	A I D				GON (1)	GOI	TOTAL
	L O A N*		G R A N T				
	FX	LC	FX	LC			
1. FAR-Subproject Construction		21,000			2,200	27,800	51,000
2. Technical Assistance (3)			2,150	350		300	2,800
3. Training		425				425	850
a. In-country							200
b. Overseas	200						
4. Res./Trng. Center						1,200	1,200
a. Land Development						1,100	2,200
b. Construction		1,100					
c. Equipment/ Furnishings	200					250	450
5. FKGB Operations						10,500	10,500
Contingency	40	2,035	450	50		4,765	7,340
TOTAL	440	24,560	2,600	400	2,200	46,340	76,540

(1) Government of the Netherlands

(2) Inflation factor (10%) has been included in each line item.

(3) Foreign exchange costs includes salaries, allowances, overhead and international travel.
GOI is to provide vehicles, in-country transportation and per diem (in-country).

FX : Foreign Exchange

LC : Local Currency

AID Funding for project after U.S. FY 1979 is subject to the availability of funds.

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Project Grant Standard Provisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters. To assist Grantee in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

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

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

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

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

SECTION B.3. Utilization of Goods and Services

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

(b) Goods or services financed under the Grant, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation

(a) This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Grant, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

SECTION B.5. Reports, Records, Inspections, Audit.

The Grantee will:

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

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after

SECTION B.5. (b)

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 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 Grantee will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

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

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

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

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

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

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

(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;

SECTION C.3.

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

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

(d) Consulting firms used by the Grantee for the Project but not financed under the Grant, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Grantee for the Project but not financed under the 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 territory of the Grantee may not be financed under the Grant if transported either: (1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

SECTION C.6.

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

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

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Grantee on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Grantee may be financed as a Foreign Exchange Cost under this Agreement provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder are payable in 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.

SECTION C.7.

(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 insurances 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.,

SECTION D.2.

notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

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

(c) 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.

A.I.D. Grant No. 497-0285

AMENDMENT NO. 1
TO PROJECT GRANT AGREEMENT
BETWEEN THE REPUBLIC OF INDONESIA
AND THE
UNITED STATES OF AMERICA
FOR
RURAL WORKS II

Date: August 14, 1979.

This AMENDMENT NO. 1, dated August 14, 1979, entered into between THE REPUBLIC OF INDONESIA ("Grantee") and THE UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D."),

WITNESSETH THAT

WHEREAS, on April 19, 1979, the Grantee and A.I.D. entered into a Project Grant Agreement, designated as A.I.D. Project No. 497-0285 ("Grant Agreement"), whereby A.I.D. agreed to grant to the Grantee not to exceed one million United States ("U.S.") dollars (\$1,000,000) to assist the Grantee in carrying out a rural works program as more particularly described therein; and

WHEREAS, the Grantee and A.I.D. desire to amend the Grant Agreement to reflect an increase of \$500,000 in the amount of the Grant from \$1,000,000 to \$1,500,000;

NOW, THEREFORE, the Grantee and A.I.D. agree that the Grant Agreement is hereby amended as follows:

1. Section 3.1 is hereby modified to read as follows:
"Section 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed One Million Five Hundred Thousand United States ("U.S.") dollars (\$1,500,000) ("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."

2. Section 3.2(b) is hereby modified to read as follows: "(b) The resources provided by Grantee for the total Project (Grant and Loan) will be not less than the equivalent of Thirty-three Million United States Dollars (\$33,000,000) including costs borne on an "in-kind" basis."

3. The Projection of Expenditures attached to Annex 1 is deleted and the attached Financial Plan (Incremental Funding) is substituted therefor.

4. Except as hereinabove expressly amended, the Grant Agreement is ratified, confirmed and continued in full force and effect in accordance with all of its terms.

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its respective duly authorized representative, have caused this Amendment No. 1 to be signed in their names and delivered as of the day and year first above written.

UNITED STATES OF AMERICA

By: Walter G. Bollinger
Walter G. Bollinger
Acting Director
USAID Mission to
Indonesia

REPUBLIC OF INDONESIA

By: Urip Widodo, S. H.
Urip Widodo, S. H.
Secretary General for
Department of Manpower and
Transmigration

RURAL WORKS II
FINANCIAL PLAN (INCREMENTAL FUNDING)*
(US\$ 000)

INPUTS	A I D				GON	GOI	TOTAL
	LOAN		GRANT				
	FX	LC	FX	LC			
1. FAR-Subprojects							
a. 1085 Constructed		15,805			2,200	15,935	33,940
b. 155 Constructed						3,720	3,720
2. Technical Assistance							
a. 108 MM LT Advisors			900	190		225	1,315
b. 24 MM ST Advisors			300			55	355
3. Training							
a. In-country		425				425	850
b. Overseas	200						200
4. Research/Training Center							
a. Land Development						1,200	1,200
b. Construction		1,100				1,100	2,200
c. Equipment/ Furnishings	200					250	450
5. PKGB Operation						7,800	7,800
Contingency	20	1,250	100	10		2,290	3,670
TOTAL	420	18,580	1,300	200	2,200	33,000	55,700

*Note: Includes two tranches of AID funds made available in FY 79, and matching Borrower funds for GOI FYs 79/80 and 80/81

July 23, 1979

UNITED STATES GOVERNMENT

Memorandum

4970285 (4)
PD-110-928

TO : Distribution

DATE: May 15, 1979

9p

FROM : ASIA/PD/EA, Paulyette F. Rogers

SUBJECT: INDONESIA - A.I.D. Loan No. 497-T-056 (497-0285)
Rural Works II
Implementation Letter No. 1

Attached for your information and files is copy of subject document.

Attachment: a/s

Distribution:

FM/LD:SHudec	619 SA 12, Stop 6
FM/BFD:JO'Neill	534 C, SA 12, Stop 6
ASIA/PD/ENGR:RMacDonald	
ASIA/ISPA:BDupuis	4214 NS
ASIA/TR:TMArndt	609 RPC
ASIA/DP:RHalligan	3208 NS
GC/ASIA:CStephenson	6312 NS
<u>DS/DIU</u>	105 RPC
SER/COM:RWiley	803 D RPC



(Implementation Letter - Indonesia)

AGENCY FOR INTERNATIONAL DEVELOPMENT
AMERICAN EMBASSY
Jakarta, Indonesia

Date: April 19, 1979

Departemen Luar Negeri
Jalan Taman Pejambon No. 6
Jakarta Pusat

Attention: Directorate General of
Foreign Economic Relations

Subject: A.I.D. Loan No. 497-T-056
Rural Works II
Implementation Letter No. 1

Gentlemen:

This Project Implementation Letter explains A.I.D.'s procedures for utilizing the proceeds of this loan and provides information that will be of assistance to you in implementing the Project in accordance with the Loan Agreement. It should be realized, however, that nothing in this letter or its attachments amends, modifies or alters the scope, terms or authority of specific articles and sections referred to or explained in this communication. This letter and its attachments may be supplemented, from time to time, during the period of A.I.D.'s involvement in the Project.

Throughout this letter the term "A.I.D." refers to the United States Agency for International Development. The term "Government" and "G.O.I." makes reference to singular and/or collective entities of the Government of the Republic of Indonesia.

The term "Project" is defined as the activities described in Article 2 and Annex 1 of the Loan Agreement.

As many of the articles and sections in the Loan Agreement are self-explanatory, this letter will address only those agreement provisions which may require clarification or further interpretation. However, the omission from discussion here of any Loan Agreement article or section should not be construed as lessening the importance or significance of that specific article or section.

For clarity of explanation and identity of articles, sections and subsections discussed in this letter, simultaneous reference should be made to the loan agreement.

Article III. Financing

SECTION 3.2. Borrower Resources for the Project

Part (b) of this section states that Borrower resources to be provided in support of the Loan and Grant will be not less than the equivalent of \$13,900,000 including costs borne on an "in-kind" basis. The term "in-kind" refers to such costs as those for management and technical staffs, office space, transportation and related costs.

SECTION 3.3. Project Assistance Completion Date

- a-b. These sections set forth the terminal date for the issuance of new commitments against loan funds, and
- c. The terminal date for disbursement of actual A.I.D. loan funds.

Article IV. Loan Terms

SECTION 4.5. Renegotiation of Terms

This section addresses an economic developmental situation that does not have present application but which could change substantially in a relatively short time. Specifically, the Government and A.I.D. agree to renegotiate the repayment schedule of the loan to reflect any significant and continuing improvement in the overall economic and financial position of Indonesia. The section further establishes the procedures, time and place for these renegotiations.

Article V. Conditions Precedent to Disbursement

SECTION 5.1. First Disbursement

- a. This subsection, as in all our loan agreements, asks for the opinion of your Minister of Justice that the signed loan agreement is a valid and legally binding obligation of the Government.
- b. This subsection is A.I.D.'s routine request for the name(s) and signature(s) of the person(s) which your

Government wishes to have represent them in all matters related to the loan agreement and the implementation of the project.

c. Detailed criteria for kecamatan and subproject selection

1. Selection of Participating Kecamatan: The DMP will select kecamatan yearly for inclusion in the Rural Works program and notify A.I.D. Selected kecamatans may be deleted and replaced by other kecamatans at any time during the year, provided that the substitute kecamatans shall also meet the selection criteria and A.I.D. is notified.

All participating kecamatans must meet certain criteria which are to be submitted to A.I.D. for approval as a Condition Precedent to Initial Disbursement. In keeping with the basic objective of the Rural Works program of promoting greater agricultural productivity and rural economic development in the poorest areas of Indonesia, low per capita agricultural production in rural areas is felt to be the minimal criteria for kecamatan selection. Additional criteria may be submitted by the DMP, including the use of rural unemployment surveys.

2. Selection of Subprojects: The DMP must submit for A.I.D. approval a list of detailed criteria to be utilized in the selection of subprojects. The following five criteria are considered basic to ensure that the benefits of each subproject are maximized:

(a) Subprojects, when completed, must result in a substantive improvement in the basic capacity of the area for productive development and agricultural activity.

(b) Subprojects must be labor-intensive in order that as many people as possible be given an immediate opportunity for work. Therefore, wages are expected to constitute a high percentage of total subproject costs on a kecamatan basis.

(c) Subproject must conform to and be consistent with the overall development plans prepared by the respective Kabupaten and Province.

(d) Subprojects must conform in size and scope to the need for work and availability of labor within

a reasonable distance from the subproject sites. Therefore, subproject activity must take place close to the villages of those who will benefit from the activity and its associated employment effects and must be capable of completion within a relatively short period of time.

(e) The subprojects should not have any major adverse environmental effects such as causing damage to land or water quality, flooding, adversely affecting historical or archeological sites or disrupting the social and economic well being of the people.

The above basic criteria for subproject selection may be expanded and/or refined by the GOI in its submission to satisfy this Condition Precedent to Initial Disbursement. Over time, it is anticipated that the GOI and/or A.I.D. may suggest further revisions to these basic criteria.

d. Project evaluation is an activity of great importance as it provides continuing, comparative bench marks against which project accomplishments and shortcomings can be reviewed and assessed. Upon request, A.I.D. is ready to assist the Government's effort in the preparation of the evaluation program referred to in this subsection and detailed in Section 6.1.

SECTION 5.5. Terminal Dates

Conditions precedent to First Disbursement listed in Section 5.1 must be satisfied within 90 days after the loan agreement is signed.

Article VI. Special Covenants

Section 6.1. Project Evaluation

This section details the evaluation program required under Section 5.1(d). As stated, the scope of the program should be directed toward (1) assessing progress on project objectives; (2) identification of problems/constraints; (3) consideration of the manner in which this project's experiences and problems (and, hopefully, their attendant solution) may be applicable to other aspects of this and other projects and (4) determining project's development impact.

SECTION 7.1. Foreign Exchange Costs

This section limits the procurement of A.I.D. financed goods and services to those countries included in Code 941 of the A.I.D. Geographic Code Book in effect at the time procurement takes place. A complete list of eligible source/origin countries is enclosed as Attachment A.

SECTION 7.2. Local Currency Costs

As customary, local currency procurement is restricted to commodities and services that are purchased in Indonesia (source) and (except as otherwise permitted by AID in writing) that were also manufactured or created in (origin) this country.

Article VIII. Disbursement

SECTION 8.1. Foreign Exchange Disbursements

Disbursements for U.S. dollars costs are normally made against Letters of Credit established under Letters of Commitment to Government selected U.S. banks. However, other payment procedures are also available and may be used as appropriate. In order that you may be generally more aware of some of these practices, we have enclosed Attachment B on Letter of Commitment procedures.

USAID will finance from the loan 100% of the foreign exchange cost of the following mutually agreed items:

- (a) Overseas training
- (b) Specialized imported training, laboratory and research equipment for the Research and Training Center.

SECTION 8.2. Disbursement for Local Currency Costs

The Indonesian Government has strongly requested that all disbursements under the Rural Works II project loan to cover local currency costs be made in U.S. dollars. USAID/Indonesia will comply with this request unless U.S.-owned Indonesian rupiahs which are generated under other mutually agreed upon U.S. assistance programs should become surplus to the needs of the U.S. Government.

USAID does not anticipate that significant amounts of surplus Indonesian rupiahs will be accumulated by the U.S. Government during the life of this project. Accordingly,

it should be possible to disburse the full amount of the Rural Works II project loan in U.S. dollars. No change in the use of U.S. dollars to affect payments for any local costs of the Rural Works II project will take place without prior consultation with the Indonesian Government.

USAID agrees to finance the following local currency costs from the loan;

- (a) 50% of the cost of approved in-country training.
- (b) 50% of the construction cost of the Research and Training Center, excluding land, local furnishings and the construction cost of PKGB central office facilities if co-located.
- (c) Fixed Amount Reimbursement (FAR) of subprojects under the following conditions:

1. If the Government of the Netherlands (GON) does not provide assistance for subproject reimbursement, USAID will reimburse 50% of the construction and design cost of acceptable subprojects.

2. If the GON does provide assistance for subproject reimbursement, the combined AID-GON donor contribution shall not exceed 60%. In FY 1978/79, the GON will reimburse 25% of the cost of each subproject reimbursed by USAID. USAID reimbursement will be 35%. Starting in FY 1979/80, it is proposed that the GON be responsible for a separate area of Indonesia; East Java and Eastern Islands. In this case, the 35/25 percent split between donors will be maintained on an overall program basis, but each donor will reimburse 60% of the construction and design cost of acceptable subprojects in their separate areas of responsibility. Adjustments may be needed periodically in the number of subprojects reimbursed by AID and GON in order to maintain the 35/25 ratio for the overall construction program.

(d) The percentage of AID financing for any activity might be changed by mutual agreement of AID and GOI if necessary to achieve the objectives of the program and AID financing.

SECTION 8.4. Rate of Exchange

It is understood and agreed that the rate of exchange utilized to determine the amount of dollars disbursed for local costs will be the rate utilized by the Bank of

Indonesia to buy dollars in exchange for rupiahs (the buying rate for dollars). This rate, however, will not be less favorable to the United States Government than the highest rate at which the United States Government could buy rupiahs from the Bank of Indonesia with dollars for United States Government expenditures in Indonesia.

No change in the use of the Central Bank buying rate for dollars to calculate the conversion for local currency expenditures will take place without prior consultation with the Indonesian Government.

Amplified Description of the Project - Annex 1

Please note that changes in the description may be made only by the representatives specified in Section 9.2 (Chairman or Vice Chairman of BAPPENAS and the USAID Mission Director) without formal amendment of the Loan Agreement. However, changes in the Financial Plan for individual line items of input may be made by the authorized representatives designated in accordance with Section 5.1(b) and Section 9.2.

Project Loan Standard Provisions - Annex 2

Utilization of Goods and Services - Section B.3(b)

Countries included in Code 935 of A.I.D. Geographic Code Book are listed in Attachment C.

Information and Markings - Section B.8

As implementation proceeds, A.I.D. will advise regarding the appropriate use of signs and markings on commodities and at project sites.

Notification to Potential Suppliers - Section C.5

Shipping - Section C.6

Insurance - Section C.7

If and when procurement of imported commodities is needed, A.I.D. will advise on appropriate procedures.

We will be pleased to discuss any questions about the implementation of this Loan and the project it supports. In order to ensure that there is general agreement between the

Indonesian Government and A.I.D. on the contents of this implementation letter, please so indicate in a letter of concurrence signed by the Government of Indonesia's authorized representative as stated in the Loan Agreement.

Sincerely yours,



Thomas C. Niblock
Director

Attachments: A. A.I.D. Geographic Code 941
B. Letters of Commitment Procedures
C. A.I.D. Geographic Code 935

cc: DEPLU - 10 (1 w/attachment)
BAPPENAS - 5 (1 w/attachment)
Dept. of Manpower - 5

ASIA/PD - 10
DIR/DD - 1
RLA - 3
MGT - 2
PRO - 2
Project Officer - 1
RD - 1
C&R - 3

Clearances: PRO: RSingleton RS
PRO: RCohen RC
RD : CRheingans CR

DD:WGBollinger WGB

Drafted: LA: JRKahle: es, 4/10/79

UNITED STATES GOVERNMENT

Memorandum

4970285 (5)
FD-440-978

6p

DATE: September 6, 1979

TO : Distribution

FROM : ASIA/PD/EA, R. J. Asselin

SUBJECT: A.I.D. Grant No. 497-0285
Rural Works II (Amendment No. 1)

Attached for your information and files is copy of the subject document.

Attachment: a/s

Distribution:
FM/LD:ASmith
FM/BFD:JO'Neill
FM/FCD:DBaker
ASIA/ISPA:HPetrequin, RDakan
GC/ASIA:HMorris
ASIA/PD
DS/DIU (2)



A.I.D. Grant No. 497-0285

**AMENDMENT NO. 1
TO PROJECT GRANT AGREEMENT
BETWEEN THE REPUBLIC OF INDONESIA
AND THE
UNITED STATES OF AMERICA
FOR
RURAL WORKS II**

Date: August 14, 1979.

This AMENDMENT NO. 1, dated August 14, 1979, entered into between THE REPUBLIC OF INDONESIA ("Grantee") and THE UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D."),

WITNESSETH THAT

WHEREAS, on April 19, 1979, the Grantee and A.I.D. entered into a Project Grant Agreement, designated as A.I.D. Project No. 497-0285 ("Grant Agreement"), whereby A.I.D. agreed to grant to the Grantee not to exceed one million United States ("U.S.") dollars (\$1,000,000) to assist the Grantee in carrying out a rural works program as more particularly described therein; and

WHEREAS, the Grantee and A.I.D. desire to amend the Grant Agreement to reflect an increase of \$500,000 in the amount of the Grant from \$1,000,000 to \$1,500,000;

NOW, THEREFORE, the Grantee and A.I.D. agree that the Grant Agreement is hereby amended as follows:

1. Section 3.1 is hereby modified to read as follows:
"Section 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed One Million Five Hundred Thousand United States ("U.S.") dollars (\$1,500,000) ("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."

2. Section 3.2(b) is hereby modified to read as follows: "(b) The resources provided by Grantee for the total Project (Grant and Loan) will be not less than the equivalent of Thirty-three Million United States Dollars (\$33,000,000) including costs borne on an "in-kind" basis."

3. The Projection of Expenditures attached to Annex 1 is deleted and the attached Financial Plan (Incremental Funding) is substituted therefor.

4. Except as hereinabove expressly amended, the Grant Agreement is ratified, confirmed and continued in full force and effect in accordance with all of its terms.

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its respective duly authorized representative, have caused this Amendment No. 1 to be signed in their names and delivered as of the day and year first above written.

UNITED STATES OF AMERICA

By: Walter G. Bollinger
Walter G. Bollinger
Acting Director
USAID Mission to
Indonesia

REPUBLIC OF INDONESIA

By: Urip Widodo, S. H.
Urip Widodo, S. H.
Secretary General for
Department of Manpower and
Transmigration

**RURAL WORKS II
FINANCIAL PLAN (INCREMENTAL FUNDING)*
(US\$ 000)**

INPUTS	A I D				GON	GOI	TOTAL
	LOAN		GRANT				
	FX	LC	FX	LC			
1. FAR-Subprojects							
a. 108 ⁵ Constructed		15,805			2,200	15,935	33,940
b. 155 Constructed						3,720	3,720
2. Technical Assistance							
a. 108 MM LT Advisors			900	190		225	1,315
b. 24 MM ST Advisors			300			55	355
3. Training							
a. In-country		425				425	850
b. Overseas	200						200
4. Research/Training Center							
a. Land Development						1,200	1,200
b. Construction		1,100				1,100	2,200
c. Equipment/ Furnishings	200					250	450
5. PKGB Operation						7,800	7,800
Contingency	20	1,250	100	10		2,290	3,670
TOTAL	420	18,580	1,300	200	2,200	33,000	55,700

*Note: Includes two tranches of AID funds made available in FY 79, and matching Borrower funds for GOI FYs 79/80 and 80/81

July 23, 1979

UNITED STATES GOVERNMENT

Memorandum

497-0285
4970285 (6)
PD-AAA-928

TO : Distribution

DATE: Feb. 6, 1979

Sp

FROM : ASIA/PD/EA, M. P. Leifert

SUBJECT: INDONESIA - Rural Works II Project (497-0285)
\$25 Million Loan; \$3.0 Million Grant
Project Authorization

Attached, for your information and files is copy of subject document, signed by DA/AID on January 23, 1979.

Distribution:

AA/ASIA, J. H. Sullivan
DAA/ASIA, F. Schieck
AA/PPC, A. Shakow
ASIA/PD, D. Brennan
ASIA/TR, C. Martin
ASIA/ISPA:D. Fredrick
ASIA/DP:CJohnson
GC/ASIA:CStephenson
PPC/PDPR:R. Malley
GC, Markham Ball
FM/LD, Arthur Smith
FM/RDC, Dannie Baker
ASIA/PD/ENGR, R. MacDonald
ASIA/TR, T. Arndt
SER/CM/SD, J. Murphy
ASIA/DP, R. Halligan
ASIA/DP, R. Leonard (2)
USATD/Indonesia (2-way w/6)
➤ DS/DIU (2)



JAN 17 1979

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

THRU: AA/PPC, Alexander Shakow *AS*

FROM: A/AA/ASIA, Robert Halligan *RH*

SUBJECT: Indonesia - Rural Works II Project (497-0285) -
\$25 Million Loan; \$3.0 Million Grant

Problem: Your approval of subject project is required because life-of-project funding exceeds \$10 million.

Background: The purpose of subject project is to generate employment (short and long-term) and income for rural poor people through the construction and operation of small physical infrastructure, such as irrigation/flood control canals, feeder roads, etc. Over the next three years under Rural Works II, some 1,500 subprojects will be constructed in about 1,100 to 1,500 of the poorest subdistricts (kecamatan). Subprojects will primarily be concentrated on the island of Java, since that is the area of largest population and most serious rural employment problems; however, a number of subprojects will be constructed on Sumatra and the other outer islands.

Subprojects are simple in design and use local materials and labor as much as possible. The subprojects are designed for maximum labor content - usually at least 70% of the cost of an individual subproject. Subproject selection criteria accord priority to participating subdistricts with low income and high underemployment. The selection criteria also place emphasis on creation of durable physical assets which will provide continuing income and employment benefits.

Of the A.I.D. loan of \$25 million, approximately \$23 million will finance a portion (34%) of the cost of constructing the subprojects. The balance of the loan will assist in financing costs of constructing an associated research and training program, both in-country and overseas. The grant will finance approximately 23 person-years of long and short-term advisors. Contributions in the amount of \$46 million from the Government of Indonesia (GOI) and \$5.5 from the Government of the Netherlands are planned.

0005664

The subject project represents a significant expansion of the successful Rural Works I Project (497-0240), which was initiated in 1975. Rural Works I loan funds (\$6.8 million) will be fully committed to subprojects initiated in calendar year 1978, and Rural Works II is intended to provide continuity of A.I.D.-funding. The ongoing project was subjected to intensive evaluations in 1976 and late 1977. Both evaluations concluded that the project is meeting its objectives and has been highly successful in bringing about improvements in administrative performance by the GOI.

The project has been examined for overall soundness according to the following criteria:

1. Technical Soundness - Subprojects are relatively simple to design and construct. Their construction and implementation are well within the capabilities of local communities assisted by officials of provincial public works departments. Sound selection criteria for rural works subprojects have been established and are carefully observed. Important improvements have been made in the system for developing designs and cost estimates of subprojects before initiation of construction. Construction supervision has improved through the combined effect of training local supervisors provided by the Directorate of Manpower (DMP) which manages the program, and obtaining the cooperation of local public works officials. Maintenance is provided through partial subsidy by the DMP and financial incentives to communities which perform the most effective maintenance.
2. Economic Analysis - The subject project is an economic and sound labor-intensive approach to developing rural infrastructure. An economic analysis indicates that the project will have a significant effect on short and long-term employment and rural incomes, increase overall agricultural production, and generate significant direct economic returns. For example, using first pessimistic and then optimistic assumptions, the Internal Rate of Return to canal subprojects is estimated at 46 and 62 percent.
3. Financial Soundness - The GOI has increased the budget for the Rural Works Program from \$2.65 million in 1974 to \$18 million in 1978, reflecting a progressively increasing commitment to the program. Accordingly, the proposed GOI contribution of \$46 million over a three-year period is considered realistic.
4. Social Soundness - Subprojects constructed under the rural works program are intended for the poorest rural communities; the average per capita income of Rural Works I beneficiaries approximated \$100 compared to an average of \$171 for all rural Indonesia. A social soundness analysis conducted in early 1978 concluded that most subprojects reflect the felt needs of Indonesian villagers, and a high percentage are selected with direct involvement of target communities.

5. Institutional Capability - The DMP has significantly increased its capability to carry out the rural works program, by expanding its staff, creating a central monitoring and evaluation unit, training local construction supervisors, and improving procedures for subproject selection, design, and maintenance. Perhaps the most successful aspects of Rural Works I have been this institutional development of the DMP and GOI's readiness to act on recommendations of the evaluation studies regarding administrative practices. The changes cited and the significant level of technical assistance provided by the A.I.D. grant lead us to conclude that the GOI will have the capability to administer the subject projects.

On the basis of the analysis summarized above, we have determined that the project is well conceived and feasible, based on technical, social, economic, administrative and financial considerations. The PP has been reviewed without issue by the Development Loan Staff Committee (the PP review pre-dated establishment of the Bilateral Subcommittee), and the Christopher Committee on Human Rights. A negative environmental determination was signed by the AA/ASIA on 5/9/78.

The project is included in the FY 1979 Congressional Presentation at \$8,000,000 Loan and \$500,000 Grant. An advice of Program Change was sent to Congress on 12/27/78 and the 15 day waiting period expired on 1/10/79, due to an increase in the grant component?

The project will be subject to joint Government of Indonesia (GOI) and USAID yearly evaluations and ad hoc field studies on socio-economic impact with a specially trained GOI team to continuously monitor subproject selection, construction quality and long term impact. In addition, a complete, in-depth evaluation of the GOI PKGB (New Style Labor Intensive) program has been proposed for the summer of 1979. There are no Congressional issues or questions nor A.I.D. Auditor General or GAO audits related to this project.

Subsequent to Asia Bureau approval of the project, an upward adjustment of the technical assistance component by the Mission has added \$500,000 to the Life of Project (LOP) cost of \$27,500,000 as given in the Project Paper, to give a revised LOP of \$28,000,000. Accordingly, the project is ready for approval.

Recommendation: That you approve \$25,000,000 in loan financing and \$3,000,000 in grant financing for the life-of-the

project period FY 1979 through FY 1982 and authorize \$8,000,000 in loan financing and \$1,000,000 in grant financing in FY 1979 with further increments subject to the availability of funds by signing the attached Project Authorization (Tab A).

Tab A - Project Authorization

mrl
ASIA/PD/EA:MPLeifert:mab:12/27/78:x58960

12/27

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT AUTHORIZATION AND REQUEST
FOR ALLOTMENT OF FUNDS PART I

1. TRANSACTION CODE

A

A = ADD
C = CHANGE
D = DELETE

PAF

2. DOCUMENT CODE
5

3. COUNTRY/ENTITY

INDONESIA

4. DOCUMENT REVISION NUMBER

5. PROJECT NUMBER (7 digits)

[497-0285]

6. BUREAU/OFFICE

A. SYMBOL

B. CODE

ASIA

[04]

7. PROJECT TITLE (Maximum 40 characters)

[Rural Works II]

8. PROJECT

APPROVAL
DECISION

ACTION TAKEN

A

A = APPROVED
D = DISAPPROVED
DE = DEAUTHORIZED

9. EST. PERIOD OF IMPLEMENTATION

YRS. [3]

QTRS. [3]

10. APPROVED BUDGET AID APPROPRIATED FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY 79		H. 2ND FY 80		K. 3RD FY 81	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) A, RD&N	B200	059	290	1,000	8,000	2,000	8,000	-	9,000
(2)									
(3)									
(4)									
TOTALS				1,000	8,000	2,000	8,000	-	9,000

A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		PROJECT FUNDING AUTHORIZED		A. GRANT	B. LOAN
	O. GRANT	P. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	C. PROJECT FUNDING AUTHORIZED THRU			
(1) A, RD&N					3,000	25,000	1 = LIFE OF PROJECT 2 = INCREMENTAL LIFE OF PROJECT		2	2
(2)										
(3)										
(4)										
TOTALS						3,000	25,000			[8] [2]

12. INITIAL PROJECT FUNDING ALLOTMENT REQUESTED (\$000)

13. FUNDS RESERVED FOR ALLOTMENT

A. APPROPRIATION	B. ALLOTMENT REQUEST NO.		TYPED NAME (Chief, SER/FM/FSD)
	C. GRANT	D. LOAN	
(1) A, RD&N	1,000	8,000	
(2)			
(3)			
(4)			
TOTALS		1,000	8,000

SIGNATURE

DATE

14. SOURCE/ORIGIN OF GOODS AND SERVICES

000

941

LOCAL

OTHER

15. FOR AMENDMENTS, NATURE OF CHANGE PROPOSED

FOR PPC/PIAS USE ONLY	16. AUTHORIZING OFFICE SYMBOL	17. ACTION DATE			18. ACTION REFERENCE (Optional)	ACTION REFERENCE DATE		
		MM	DD	YY		MM	DD	YY

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

OFFICE OF
THE ADMINISTRATOR

PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS

PART II

INDONESIA

Rural Works II
A.I.D. Project
No. 497-0285

Pursuant to Part I, Chapter 1, Section 103(a) of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Loan and a Grant to Indonesia (the "Cooperating Country") of not to exceed Nine Million United States Dollars (\$9,000,000) (the "Authorized Amount") to help in financing certain foreign exchange and local currency costs of goods and services required for the project as described below. The project consists of goods and services required for training, technical assistance and reimbursement for a portion of the costs of construction of small, labor intensive, economically productive rural works (hereinafter referred to as the "Project").

Of the Authorized Amount, Eight Million Dollars (\$8,000,000) ("Loan") will be loaned and One Million Dollars (\$1,000,000) ("Grant") will be granted to the Cooperating Country to assist in financing certain foreign exchange and local currency costs of goods and services required for the Project.

I approve the total level of A.I.D. appropriated funding planned for this Project of not to exceed Twenty Eight Million United States Dollars, of which \$25,000,000 will be Loan funded and \$3,000,000 Grant funded including the funding authorized above, during the period FY 1979 through 1982. I approve further increments during the period of Loan and Grant funding up to \$19,000,000 subject to the availability of funds in accordance with A.I.D. allotment procedures.

I hereby authorize the initiation of negotiation and execution of the Project Agreement or Agreements by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and delegations of authority subject to the following essential terms and covenants and major conditions; together with such other terms and conditions as A.I.D. may deem appropriate:

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in United States Dollars within forty (40) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in United States Dollars interest from the date of first disbursement of the Loan at the rate of (a) two per cent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services

Except for ocean shipping, goods and services financed by A.I.D. under the Project shall have their source and origin in the Cooperating Country or the United States (in the case of the Grant) and in the Cooperating Country or countries included in A.I.D. Geographic Code 941 (in the case of the Loan) except as A.I.D. may otherwise agree in writing. Ocean shipping financed under the Project shall be procured in accordance with current A.I.D. policy.

Clearances:	Date	Initial
Markham Ball, GC	<u>1/5/79</u>	<u>[Handwritten Initial]</u>
Alexander Shakow, AA/PPC	<u>1/11/79</u>	<u>[Handwritten Initial]</u>
Robert Halligan, A/AA/ASIA	<u>2</u>	<u>[Handwritten Initial]</u>
Robert H. Nooter, DA/AID	<u> </u>	<u> </u>

Signature

Robert H. Nooter

Date