

Project No. A.I.D. 492-0401

PD-AAU-138
ISN = 46729

Loan Agreement
(for Loan)

1. Title

2. Purpose

3. Amount

4. Term

5. Interest

6. Repayment

7. Covenants

8. Miscellaneous

✓ Approved by the President of the Philippines
10/10/86, DE

PROJECT

GRANT AGREEMENT

between the

REPUBLIC OF THE PHILIPPINES

and the

UNITED STATES OF AMERICA

for the

RURAL WATER SUPPLY AND SANITATION PROJECT

Dated: September 17, 1986

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PROJECT GRANT AGREEMENT

Dated: September 17, 1986

Between the Republic of the Philippines ("Grantee") and the United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement.

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

Article 2: The Project.

Section 2.1. Definition of Project. The Project, which is further described in Annex I, will consist of (i) assistance at the national and local levels to improve the design, management, operations and maintenance of rural water systems; (ii) assistance at the national and local levels to encourage participation of local communities in the planning, implementation, operations and maintenance of rural water and sanitary facilities; (iii) financing the construction of rural water supply systems and the rehabilitation of water supply source facilities; and (iv) assistance to integrate improved water systems and improved health and sanitary practices. Annex I to 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 I may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this Agreement.

Section 2.2. Incremental Nature of Project.

(a) 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 the 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 Nine Million Six Hundred Seventy-Eight Thousand Eighty-Five United States ("U.S.") Dollars (\$9,678,085.00) ("Grant").

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

Section 3.2. Grantee Resources for the Project.

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

(b) The resources provided by the Grantee for the Project will be not less than the equivalent of U.S. \$4,252,000.00, including costs borne on an "in-kind" basis. In addition, local government units and Rural Water and Sanitation Associations participating in the Project will be required to provide resources of not less than U.S. \$1,603,000.00 and U.S. \$395,000.00, respectively, including costs borne on an "in-kind" basis.

Section 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is September 30, 1990, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under 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. Conditions Precedent to 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 shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) an opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with its terms; and

(b) 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; and

(c) evidence of the establishment within the office of the Deputy Minister for Special Projects of the Ministry of Local Government ("MLG") of a Project Management Office for the Project and of the designation of its Director; and

(d) approval in writing by the duly authorized representative of MLG for the Project of an A.I.D. Project Implementation Order for Technical Services ("PIO/T") authorizing A.I.D. to procure under an A.I.D. direct contract financed under the Grant the services of a contractor to conduct the Financial Terms and Socio-Economic Study referred to in Section II(E) of Annex I.

Section 4.2. Condition Precedent to Disbursement for Project Management Consulting Services. Prior to disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for the procurement of project management consulting services for the Project, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., an executed contract between MLG and a contractor to provide for such services, together with evidence that the executed contract has received all necessary approvals required by the Grantee.

Section 4.3. Conditions Precedent to Disbursement for Construction Services for Rural Water and Sanitation Associations. Prior to disbursement under the Grant, or to the issuance by A.I.D. of

documentation pursuant to which disbursement will be made, for construction services for any Rural Water and Sanitation Association, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) an executed contract between MLG and a contractor to provide for project management consulting services for the Project, together with evidence that the executed contract has received all necessary approvals required by the Grantee; and

(b) a standard form of contract to be executed, with such modifications as may be necessary or desirable from case to case, by MLG and the contractors that will provide architectural and engineering services for the Project; and

(c) the implementation plan for the Project referred to in Section III(B)(2) of Annex I; and

(d) standard forms of financing agreements to be executed, with such modifications as may be necessary or desirable from case to case, with respect to each rural water supply system subproject and each water supply source facility rehabilitation subproject to be financed under the Grant, by MLG, the Rural Water and Sanitation Association on whose behalf the financing is to be provided, and the local government unit having jurisdiction over such Rural Water and Sanitation Association; and

(e) standard forms of construction contracts to be executed, with such modifications as may be necessary or desirable from case to case, with respect to each rural water supply system subproject and each water

supply source facility rehabilitation subproject to be financed under the Grant, by the local government unit having jurisdiction over the Rural Water and Sanitation Association on whose behalf the financing is to be provided and the construction contractor for such subproject.

Section 4.4. Conditions Precedent to Disbursement for Construction Services for Particular Rural Water and Sanitation Associations. Prior to disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for construction services for particular rural water supply system subprojects or water supply source facility rehabilitation subprojects to be financed under the Grant, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) with respect to the local government unit having jurisdiction over the Rural Water and Sanitation Association on whose behalf the financing is to be provided, evidence that the local government unit (i) has established a Water System Repair Fund as described in Section II(C)(4) of Annex I and a Capital Expansion Fund as described in Section III(A)(2) of Annex I and has adopted rules and regulations governing the operation of such Funds, and (ii) has motor vehicles available solely for use in implementing the community development and health and sanitation activities and supervising construction activities financed under the Project within its jurisdiction; and

(b) with respect to the Rural Water and Sanitation Association on whose behalf the financing is to be provided:

(1) an executed agreement among the Rural Water and Sanitation Association, the local government unit having jurisdiction over it and MLG providing for the financing of the subproject, based on the standard form of agreement submitted in satisfaction of the condition specified in the Section 4.3(d); and

(2) an executed construction contract between the local government unit having jurisdiction over the Rural Water and Sanitation Association and a construction contractor for the water supply system subproject or water supply source facility rehabilitation subproject based on the standard form of construction contract submitted in satisfaction of the condition specified in Section 4.3(e), together with evidence that the executed contract has received all necessary approvals required by the Grantee.

(c) an executed contract, based on the standard form of contract submitted in satisfaction of the condition specified in Section 4.3(b), between MLG and a contractor that will provide architectural and engineering services with respect to the particular subproject to be financed, together with evidence that the executed contract has received all necessary approvals required by the Grantee.

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

Section 4.6. Terminal Dates for Conditions Precedent.

If (i) all of the conditions specified in Section 4.1(a) and 4.1(b) have not been met within 30 days of the date of this Agreement; or (ii) if all of the conditions specified in Sections 4.1(c) and 4.1(d) have not been met within 60 days of the date of this Agreement; or (iii) if all of the conditions specified in Section 4.2 and 4.3(a) have not been met within 180 days of the date of this Agreement; or (iv) if the condition specified in Section 4.3(c) has not been met within 270 days of the date of this Agreement; or (v) if all of the conditions specified in Sections 4.3(b), 4.3(d) and 4.3(e) have not been satisfied within 300 days of the date of this Agreement; or (vi) in each such case, at such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement or the activity thereunder to which such condition relates and, to the extent not irrevocably committed to third parties, may cancel the then undisbursed balance of the Grant, or such undisbursed balance of the Grant made available for the activity to which such condition relates.

Article 5: Special Covenants.

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

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

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

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

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

Section 5.2. Consultation with A.I.D. The Grantee agrees to consult with A.I.D. in the course of its deliberations and prior to adopting final policies regarding the assignment of responsibilities with respect to and the methods of planning, implementing and financing rural water and sanitation facilities and to agree with A.I.D. on any necessary or desirable modifications of this Project occasioned by the adoption of such policies by the Grantee.

Article 6: Procurement Source.

Section 6.1. Foreign Exchange Costs. Disbursement pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having, with respect to goods, their source and origin, and, with respect to services, their nationality, in the United States (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services) ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b), with respect to marine insurance. Ocean transportation costs shall be financed under the Grant

only on vessels under flag registry of the United States, except as A.I.D. may otherwise agree in writing.

Section 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin, in the Republic of the Philippines ("Local Currency Costs").

Article 7: Disbursement.

Section 7.1. Disbursement for Foreign Exchange Costs.

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

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

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

suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

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

Section 7.2. Disbursement for Local Currency Costs.

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

(b) The local currency needed for such disbursements may be obtained by acquisition by A.I.D. with U.S. Dollars by purchase. The U.S. dollar equivalent of the local currency made available hereunder will be the amount of U.S. dollars required by A.I.D. to obtain the local currency.

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

Section 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2, if funds provided under the Grant are introduced into the Republic of the Philippines by A.I.D. or

any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into currency of the Republic of the Philippines at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Republic of the Philippines.

Article 8: Miscellaneous.

Section 8.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following addresses:

To the Grantee:

Mail Address: National Economic and Development Authority
P.O. Box 419, Greenhills, Metro Manila
Philippines

Alternate address for cables: NEDAPHIL

To A.I.D.:

Mail Address: United States Agency for International
Development
c/o The Embassy of the United States of
America, Manila, Philippines

Alternate address for cables: USAID/AMEMB MANILA

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

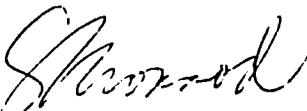
Section 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of the Director-General, National Economic and Development Authority and A.I.D. will be represented by the individual holding or acting in the office of the Director, United States A.I.D. Mission to the Philippines, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex I. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

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

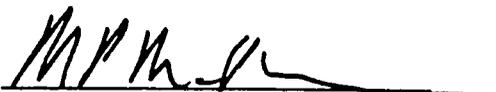
IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

UNITED STATES OF AMERICA

By: 

Solita Collas-Monsod

By: 

M. Peter McPherson

Title: _____
Minister for Economic
Planning & Director-General

Title: _____
Administrator
Agency for International
Development

ANNEX I

RURAL WATER SUPPLY AND SANITATION PROJECT

PROJECT DESCRIPTION

I. Project Goal and Purpose

The goal of this Project is to assist the Government of the Philippines (GOP) achieve its objective of decentralizing the delivery of public services through building the technical and managerial capabilities of Local Government Units (LGUs). The purpose of this Project is to develop an institutional framework and methodology for the development and enhancement of LGU capabilities to plan, finance and construct self-sustaining water supply systems and related sanitary and health improvements for rural communities.

II. Project Components

This four-year project is comprised of four major components to accomplish the goal and purpose stated above: (i) Institution Building; (ii) Community Development; (iii) Water Supply Systems and (iv) Health and Sanitation. In addition, a Financial Terms and Socio-Economic Study will be conducted to establish the financial and evaluation parameters for the Project. Each component is discussed below:

A. Institution Building

A Project Management Consultant (PMC) and local Architectural and Engineering (A&E) firms will provide training and technical assistance to promote institution building under the Project.

Training will be provided to the staffs of (i) the Project Management Office (PMO) at the Ministry of Local Government (MLG), (ii) the participating LGUs and (iii) participating Rural Water and Sanitation Associations (RWSAs) to build the technical skills required to plan and finance self-sustaining rural water supply systems and related health and sanitation improvements. Skills training will occur in a range of areas, including engineering design, groundwater hydrogeology and well development, training of trainers, financial management, sanitation and community development. Training will be based on a practical and systematic approach designed to provide relevant and directly useful training.

Technical assistance will be provided to assist in developing: a more effective PMO management and administrative organization; comprehensive project management information systems; training strategy and plans; guidelines for community development and sanitation; training and technical manuals; technical standards and procedures; and preliminary and detailed water supply system designs.

In order to create and sustain the institution building process, the approach of both the PMC and A&E firms will be a skills-transfer process within the overall framework of training. This approach will involve a two-step process whereby PMO staff obtain both technical skills and training and then subsequently function as trainers, transferring these technical skills to LGUs, who in turn transfer them to the local community. Accordingly, the primary client of the PMC is the MLG PMO staff. The success of the institution building process will depend heavily on the client-consultant/advisor relationships developed.

1. Project Management Office (PMO)

At the PMO level improvements will be undertaken in the following areas:

- (i) Understanding of and Commitment to Project Goals. An "Implementation Planning Workshop", involving PMO staff, A.I.D. representatives, contractors and others critical to Project implementation, will be held early in the life of the Project to foster PMO staff commitment to Project goals by reaching a shared understanding of the Project, developing effective working relationships and acquiring a common set of management concepts for use in accomplishing Project purposes.
- (ii) PMO Staff Organization. The PMO and PMC will develop a workable staffing plan that is responsive to Project needs.
- (iii) PMO Staff Unit Implementation Planning. Based upon the framework developed in the planning workshop, each of the PMO staff units will develop its own implementation plan.
- (iv) Skill Training Workshops. The PMC will conduct practical workshops for the PMO to build job related skills in the areas of consulting, training/technology transfer, community development, construction supervision, operations and maintenance and test well construction and design.
- (v) On-the-Job Training Modules. The PMC will design on-the-job training modules focussed on the need to accomplish certain Project tasks (i.e. training LGU engineers in better

construction management and LGU Project Development Teams on how to conduct feasibility studies).

- (vi) Team Building Workshops. At least once a year, the PMC and the PMO will organize workshops to discuss problems affecting the PMO, adopt solutions to the problems, assess progress toward achieving Project targets and make adjustments in the Project as necessary.

In addition, technical assistance will be provided to the PMO in the development of:

- (i) Training Materials;
- (ii) Training and Technical Manuals;
- (iii) Recordkeeping;
- (iv) Reporting Systems and Documents;
- (v) Budget and Fiscal Procedures; and
- (vi) Administration Procedures

2. Local Government Unit (LGU)

The PMC will assist the PMO design and implement an LGU Development and Certification Program that will expand the role of LGUs in developing financially and technically viable Rural Water and Sanitation Associations (RWSAs) and promoting health education activities related to water and sanitation.

The LGU Development and Certification Program will have six essential features:

- (i) The PMC and the PMO will design and conduct an orientation program to enable interested LGUs to make informed decisions about participation in the Project.
- (ii) The PMC and the PMO will design and conduct needs assessments to identify specific training and technical assistance needs of LGUs and assist LGUs in meeting enrollment requirements.
- (iii) A client/consultant relationship will be built between the LGUs and the PMO that involves the LGUs in all aspects of decision-making regarding the delivery of training and technical assistance.

- (iv) The PMC and the PMO will develop core curricula to improve performance of subproject development teams and promote an integrated, interdisciplinary approach to subproject development.
- (v) The PMO, the PMC and the A&E contractors will conduct follow-up skills' training and provide technical assistance to meet the specific needs of a particular LGU.
- (vi) MLG will provide grants to the LGUs equal to at least five percent of subproject costs for hiring additional personnel and purchasing materials for training and community development activities.

3. Rural Water and Sanitation Association (RWSA)

Although the RWSAs will not enter into contracts financed under the Project nor receive funds directly from the Project, the LGUs, supported by the technical assistance supplied under the Project, will work with the RWSAs to assure that the latter are part of the decision-making process concerning subprojects, and that they are fully aware of the financial and organizational responsibilities they are assuming.

Considerable emphasis shall be placed on the support given to the RWSAs by the LGUs and on the criteria for selection of RWSAs for participation in the Project. The final selection criteria will be elaborated in the early stages of the Project by the PMO with the assistance of the PMC, including the community development subcontractor involved, and will use the results of the Financial Terms and Socio-Economic Study described in Section II(E) below.

Through the institution building process described above for the LGUs, the LGUs will transfer skills and technology to the RWSAs through training and technical assistance activities. The LGUs will conduct community meetings, lead group discussions in problem solving and use non-formal education techniques to:

- (i) Improve water system operations and maintenance skills; and
- (ii) Establish a firm link between water supply and health.

Training for barangay residents and RWSA officers/managers will be provided in at least the following areas:

- (i) The bidding and construction contractor selection process;
- (ii) Engineering design/layout of the water system;

- (iii) The monitoring of construction; and
- (iv) Budget planning and bookkeeping.

B. Community Development

Participating LGUs will include persons with social science skills, communication skills and adult education experience on their staffs to achieve the participation of the communities in planning, implementing construction and operating water systems. The training coordinator of the PMC will devote considerable time to community participation, and the PMC subcontractor experienced in community development work will provide assistance in the effort. The PMO will have a social scientist on its staff to coordinate the overall effort. The PMO, with the assistance of the PMC, will prepare a training plan, which will include community participation as one of its major purposes, and will organize much of the training around the major steps that a community must take in order to participate in the Project. The training plan shall include training of the staff of the PMO and participating LGUs in the techniques of fostering community participation.

C. Water Supply Systems

The Project will finance the construction of approximately 130 rural water systems, and the rehabilitation of approximately 12 source facilities. These systems will be in the areas of jurisdiction of the approximately 26 LGUs to be selected to participate in the Project.

1. System Definition

The size and type of water systems to be financed under the Project will be based on feasibility studies for each system. Emphasis will be placed on Level II systems (public faucets for clusters of households). Level I systems (well and handpump) will be provided for selected communities, or for those areas of a community with a Level II system that cannot afford Level II fees. Level II systems with a capacity to be converted to Level III systems (house connections) will only be provided if the community itself undertakes to pay the additional cost of having that greater capacity. Wells will be the main source of water supply although gravity fed springs will be developed wherever available.

2. System Design

Well sites and the development of production wells will be based on hydrogeological testing of groundwater geology based on test wells. The PMC will have major technical responsibility for the transfer of technology relating to hydrogeology and well design.

Wells with small, low cost submersible pumps or springs developed with gravity fed lines will be used and refined to reduce energy costs. The PMC and the A&E firms will play major roles in improving and standardizing water supply system designs, specifications and contract documents.

3. System Construction

Construction of water supply systems will be accomplished by private contractors. Wells will be constructed under contracts with specialized private contractors. The LGU will provide the participating community with basic information on design and construction criteria during the preparation procedures and an RWSA member will serve as an observer/adviser to the LGU during the contractor bid/award process.

The Project A&E firms will make regular visits to inspect every subproject during construction. MLG and the A&E firms will train the LGU staffs in construction supervision to provide quality control in support of the A&E services.

After final inspection and acceptance of a Project-financed water supply system by MLG and A.I.D. as having been completed in accordance with agreed-upon plans and specifications, the LGU will turn over the completed subproject to the RWSA.

4. Operation and Maintenance

Prior to completion of a Project-financed water supply system, the RWSA system operator will be trained by the LGU Project Development Team to perform first and second echelon repairs. Major repairs will require the assistance of the LGU. MLG will provide the LGU with a repair van and a set of tools and supplies for maintenance assistance to each RWSA. The LGU will monitor the RWSA's operation of the Project-financed water supply systems through regular field evaluation trips. The LGU will utilize a team effort that will focus on technical aspects of water supply systems, such as daily operations, maintenance and repair and on more general Project concerns, such as general administration, organization, finances, personnel, and health issues related to the system.

Each RWSA receiving financing under the Project for water supply systems will be required to establish an operation and maintenance fund into which each household to be serviced by the proposed system will deposit an amount to be determined in the Financial Terms and Socio-Economic Study referred to in Section II(E) below before construction of the Project-financed system may begin. In addition, a portion, which shall be determined in the Financial Terms and Socio-Economic Study, of the user fees collected by each participating RWSA shall be paid to the LGU for deposit into a Water System Repair Fund established by the LGU. Funds held by the LGU in the Water System

Repair Fund may be loaned to participating RWSAs for the purpose of financing major repairs. The rules and regulations governing the operation of the Water System Repair Fund, including the terms and conditions upon which loans will be made to participating RWSAs to finance major repairs, shall be specified in satisfaction of the condition set forth in Section 4.4(a)(i) of the Project Agreement.

D. Health and Sanitation

To promote the sanitation benefits derived from a water supply system and to improve general sanitation, the PMO and the PMC will assist the LGUs in educating the participating communities in the need for and benefit of proper sanitation practices.

Participating LGUs will be required to submit a plan for achieving the integration of the improved water supply system and the adoption of health and sanitation practices. The LGUs will use their own public health staff to carry out their plans. To assist them in this effort, the PMC will provide assistance in the production of radio and graphic materials for promoting sanitation awareness and stimulating local interest in self-help activities to further improve community sanitation. The PMC will also assist the LGUs through consultation and training on methodologies useful in conducting sanitation awareness/education programs.

The LGUs will be encouraged to promote and assist barangays in further improvement in sanitation, particularly regarding the disposal of excreta. The GOP currently has an ongoing program for providing assistance in construction of improved latrines. The LGUs will be encouraged to extend this program to the barangays constructing potable water supply systems under the Project.

To assist the LGU's health staff in carrying out the testing of water supplies, testing kits and/or technical assistance will be provided through the PMC. MLG will coordinate this assistance with the Ministry of Health program of upgrading provincial health laboratories.

E. Financial Terms and Socio-Economic Study

A Financial Terms and Socio-Economic Study will establish guidelines for setting the user fee per unit of water consumption and for choosing the barangays to participate in the Project. It will also develop practical techniques for using these guidelines when the Project is operational.

Specific outputs of the study will include, without limitation:

- (i) Measurement of the capacity to pay for water services;

- (ii) Identification of the willingness to pay for water services and of the steps that can be taken to enhance willingness to pay;
- (iii) Development of a mechanism for estimating the proportion of households that will choose to join an RWSA;
- (iv) Development of a mechanism for estimating the consumption of water per household for various water rates;
- (v) Estimation of the operating and maintenance costs required to achieve the useful economic life of water systems;
- (vi) Estimation of the useful life of water system components and of the fee per cubic meter of water that must be placed in the LGU Water System Repair fund to finance necessary repairs; and
- (vii) Establishment of appropriate subsidy levels.

III. Project Implementation

A. Responsibilities of Implementing Entities

1. Ministry of Local Government Project Management Office

MLG will establish a Project Management Office to administer and implement the Project. It will contract for the services of a Project Management Consultant (PMC), Philippine Architect and Engineering (A&E) firms and any other services which are not contracted directly by LGUs, A.I.D. or through subcontracts to the PMC. The PMO will oversee the work of the various contractors and coordinate with other cooperating agencies such as the Ministry of Health. It will introduce modifications in its administration and operations as suggested in the analysis supporting the Project, and as will be refined in cooperation with the PMC during the early phases of the Project. PMO staff will receive training under the Project; in turn, PMO staff will become trainers of the personnel of the participating LGUs.

MLG will enter into agreements with LGUs and RWSAs pursuant to which Project funds will be provided for the construction of water supply systems and the rehabilitation of existing water supply source facilities.

2. Local Government Units (LGU)

Participating LGUs will prepare feasibility studies and preliminary and detailed engineering design plans for water supply systems and

contract for the construction of the systems. LGUs will select RWSAs for participation in the Project in accordance with criteria agreed to by MLG and A.I.D., and will monitor the performance of RWSAs with respect to Project-financed water supply systems. LGUs will assure the timely participation of their other personnel, and will coordinate participation at the provincial level of the Ministry of Health.

Each LGU will establish a Capital Expansion Fund into which shall be deposited all of the debt service payments made by participating RWSAs under their financing agreements with MLG and the LGU. Funds held by the LGU in the LGU Capital Expansion Fund shall be made available for rural water supply systems in their jurisdictions in accordance with the rules and regulations governing the operation of the Fund furnished in satisfaction of the condition specified in Section 4.4(a)(i) of the Project Agreement.

3. Rural Water Supply Associations (RWSA)

Participating RWSAs will own and operate the water supply systems constructed and rehabilitated under the Project. They will cooperate with the LGUs and the PMC and its subcontractors in assuring that the whole community understands the health improvement, financial, and other responsibilities assumed under the subproject. Participating RWSAs will establish operating and maintenance funds as described in Section II(C)(4) above. RWSA representatives will participate in the review of the plans and specifications and the choice of the suppliers of construction services and of commodities. The RWSA will collect the water service fees, pay debt service due under the financing arrangement entered into with MLG and the LGU and pay a portion of user fees into the LGU Water System Repair Fund as described in Section II(C)(4) above. Each RWSA will appoint and support a full time manager of the water system, and will work with the community development subcontractor and social marketing firm subcontractors to the PMC, as well as the representatives of the Ministry of Health, in promoting the improved health and sanitation techniques for which training is provided under the Project.

4. Ministry of Health Provincial Offices

Provincial offices of the Ministry of Health will coordinate their training and sanitation outreach efforts with Project activities. In particular, MOH provincial offices will work with the project development teams at the LGU and the barangay level and with the community development subcontractor and the social marketing firm subcontracted by the PMC to promote the health and sanitation practices made practical by the provision of accessible, safe water.

B. Implementation Process

1. Training, Technical Assistance and Studies/Surveys

Training and technical assistance provided by a U.S. Project Management Consultant (PMC) and Philippine Architectural and Engineering (A&E) firm will be the major thrust for institution building under the Project. The approach of both the PMC and the A&E firms will be a skills transfer process within a training framework and will involve a two-step process whereby PMO staff obtain both technical skills and training and then subsequently function as trainers, transferring these technical skills to LGUs, which in turn transfer them to the local community. The PMC will be responsible for planning and executing the institution building efforts across all components of the Project at both the national and the provincial level. It will subcontract the services of a social marketing firm and a community development subcontractor, and will monitor the performance of the A&E firms.

The PMC will assist and advise the PMO in all the key implementation steps, including:

- (i) development of the overall staffing plan of the PMO;
- (ii) changes in the staff patterns or organization and administrative arrangements;
- (iii) modifications in the fiscal and administrative procedures of the PMO;
- (iv) preparation of annual work plans and budgets of the PMO;
- (v) development of the standards for participation in the Project by individual LGUs and RWSAs;
- (vi) evaluation of LGUs for admission to the program and graduation from it;
- (vii) annual review of the participation in the Project of each LGU and its proposed program for the coming year;
- (viii) review of the specifications and cost estimates for commodity procurement and engineering plans, terms and costs for the construction and technical services contracts to be financed by A.I.D. under the Project and determining their appropriateness and applicability to the Project;
- (ix) certification of payments to various suppliers, including construction contractors; and

- (x) regular reports to the MLG Deputy Minister for Special Projects and A.I.D. on the progress of the Project and preparing material for quarterly review meetings.

The A&E firms will work with participating LGUs under the supervision of the PMO and in coordination with the PMC. They will assist the LGUs in developing plans and specifications for the subprojects and in selecting the firms to provide construction services. The A&E firms will also provide technical assistance and training in the conduct of subproject feasibility studies, environmental impact studies and site selection and will monitor construction activities.

The Financial Terms and Socio-Economic Study will be performed independently of the PMC and A&E services. However, the results of this effort will be a critical input for the tasks to be accomplished by the PMC and A&E firm.

The PMC and A&E firms will be contracted pursuant to the provisions of A.I.D. Handbook 11, Chapter 1 (Host Country Contracting for Professional and Technical Services). A.I.D. will enter into a direct contract for the Financial Terms and Socio-Economic Study.

In accordance with the implementation schedule for the Project, the first task to be undertaken will be the Financial Terms and Socio-Economic Study, which will begin in the last quarter of CY 1986. The PMC is scheduled to begin work at the beginning of the second quarter of CY 1987. The first advisors under that contract will be the Team Leader, a Community Development Coordinator and Budgeting and Financial Advisors. The Social Marketing Consultants (under subcontract to the PMC) and the first A&E firm is scheduled to begin work at the beginning of the third quarter of CY 1987.

2. Implementation Plan

A detailed implementation plan for the Project will be developed by the PMO with the assistance of the PMC. This plan shall include, but not necessarily be limited to:

- (i) The delineation of the sequence of activities, responsibilities and interrelationships of the various institutions involved in Project implementation, and the mechanics of disbursing Project funds;
- (ii) A plan for utilizing the recommendations of the Financial Terms and Socio-Economic Study;
- (iii) The criteria for the enrollment, development and graduation of LGUs from the Project, including the standards for

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selecting the participating LGUs and Rural Water and Sanitation Associations; and

- (iv) A detailed budget for the implementation of the Project, fully delineating the sources and uses of funds and the year of disbursement.

3. LGU Development and Certification Program

The PMO, with technical assistance from the PMC, will establish the requirements for LGU participation in the Project. The decision of which LGUs to participate in the Project will be made by the PMO, based on priority rankings of eligible LGUs submitted by Regional Development Councils. Both the selection criteria and the selection of LGUs will be subject to the review and approval of A.I.D.

4. RWSA Participation

The PMO, with technical assistance from the PMC, will establish the standards of selection of the barangay communities to participate in the project. The LGU will apply these standards in making the actual selection of the barangay communities. Both the selection criteria and the selection of the barangay communities will be subject to A.I.D. review and concurrence.

5. Subproject Agreements

Standard tripartite subproject agreements among the MLG, the participating LGU and the participating RWSA will be executed for each individual subproject for the construction of water supply systems and for rehabilitation of existing water supply source facilities. These agreements will, inter alia, specify the level and sources of financing and the financial terms of the assistance being provided (the methodology for which will be provided by the Financial Terms and Socio-Economic Study) and define the responsibilities and interrelationships of the parties involved. Each subproject agreement will be subject to A.I.D. review and approval.

6. Construction Contracts

The LGU will contract with local construction contractors to construct the water supply systems and rehabilitate existing water supply source facilities. Specialized contractors will be utilized for well construction. The procedures and guidance provided in A.I.D. Handbook 11, Chapter 2 (Host Country Contracting for Construction Services) will be utilized in conjunction with standard GOP contracting procedures for the procurement of these services. A.I.D. approved standard contract documents will be used for all construction. The A&E firms will be responsible for the day-to-day monitoring of construction activities. A.I.D. engineers will make periodic inspections of all water supply systems constructed and water supply

source facilities rehabilitated and make a final inspection upon completion of construction or rehabilitation.

7. Water Supply System Turnover

After a water supply system has undergone final inspection and acceptance by the PMO and A.I.D., the LGU will turn over the completed subproject to the RWSA. The LGU will then be responsible for follow-up of the RWSA's operation of the system through regular field evaluation trips.

C. Financing Mechanisms and Disbursements

1. AID Direct Payments

a. Construction Contracts

A participating LGU will enter into a contract with the lowest responsive responsible bidder for construction of a water supply system or rehabilitation of an existing water supply source facility. The contracts will be fixed price and any adjustments must be approved by MLG, the appropriate LGU and A.I.D. After approval of the contract by A.I.D., a 25 percent advance will be paid directly to the contractor. Once the subproject is complete, the contractor will submit the necessary documentation for final payment. A.I.D. will make final payment after receiving this documentation and written certifications from MLG, the LGU, and the responsible A&E firm stating that the subproject has been satisfactorily completed. The PMC will assist the LGU and MLG in making the necessary review and certifications.

b. Other Contractual Efforts

The PMC services and commodities will be procured through host country contracts, with direct payment to the contractors from A.I.D. The commodities to be supplied will include micro computers (including software) and training materials.

Evaluation and audit services and the Financial Terms and Socio-Economic Study will be procured through AID direct contracts with the firms or individuals supplying the services.

2. Municipal Development Fund

The GOP's Municipal Development Fund will be used to make MLG's five (5) percent grants to the LGUs.

D. Monitoring and Audit

Monthly progress reports will be submitted to A.I.D. by the PMO. These reports will cover all Project activities, including, but not limited

to, the status of physical construction. The system of reporting among the RWSAs, the LGUs and the PMO will be reviewed by the PMC early in its consultancy, and recommendations made for their improvement.

In order to make the review of Project activities more systematic, there will be quarterly meetings of representatives of the PMO and A.I.D. The meetings will be chaired by the Deputy Minister of Special Projects of MLG. Preparation of the material for the meetings will be the responsibility of the PMO, in collaboration with the PMC. Material for quarterly meetings will include reports from the A&E firms monitoring construction activities and will compare performance achieved against annual work plans. Conclusions and recommendations from the quarterly meetings will be set forth in writing, noting the status of activities, outstanding issues and the actions needed to be taken and by which organizations in a specific timeframe.

The funds provided to the Project by the GOP will be subject to audit by the GOP's Commission on Audit (COA). In order to provide audit coverage of A.I.D. funds paid directly to U.S. or Philippine contractors, the services of an independent accounting firm in the Philippines will be contracted to conduct mid-term and final financial audits and the preparatory work necessary for the conduct of those audits.

IV. PROJECT EVALUATION

There will be three evaluations conducted during the course of the Project. The first evaluation will be a reassessment of the design of the Project and the choice of implementing agencies after the GOP has concluded its analyses and reached conclusions concerning the assignment of responsibilities among the agencies involved in rural water and sanitation activities and the financial and other terms which should guide those activities. It is not clear by when the GOP will reach those conclusions. Should it not do so prior to the end of 1988 this reassessment would be included in the conduct of the second evaluation.

Unless the GOP decides to make no changes in the present organization of the sector or in the financing standards being followed, the evaluation would require an analysis of the institutional capacity and needs of whatever institution is chosen to conduct work in rural water and sanitation and of the impact on the conduct of the Project of different terms for providing resources to the RWSAs. Furthermore, it is likely that there will be a series of transitional arrangements necessary to effect any transfer of responsibilities for the Project.

The second evaluation will be a major mid-project assessment of the implementation experience compared to the implementation plan and progress indicators for the Project, as refined with the assistance of the PMC. In addition, it would review the analyses made of the possibility of the decentralization of PMO responsibilities (or its successor agency) to decide

whether the design of the Project should be modified to undertake a recommended model for decentralization of these functions and authorities or to test further some alternative models before making a final decision toward the end of the Project. This evaluation would be conducted approximately a year and a half to two years after the arrival of the PMC in-country, after the first system has been completed and prior to the time that A.I.D. would need to decide whether to obligate the remaining authorized funding level for the Project.

The third and final evaluation will record the extent to which the Project met its targets and achieved the end of project objectives. It may be performed by the A.I.D. Mission, which may include the participation of representatives of AID/W.

SUMMARY COST ESTIMATES AND FINANCIAL PLAN (ALL YEARS)
(U.S. \$000)

<u>ELEMENT</u>	<u>AID</u>	<u>MLG</u>	<u>GOP</u>	<u>LGU</u>	<u>RWSA</u>	<u>TOTAL</u>
A. T.A. & Training	4,339	-		62	-	4,401
B. Studies	256	-		-	-	256
C. Capital Costs	12,170	-		-	-	12,170
D. Commodities	634	1,162		-	-	1,796
E. Evaluations	215	-		-	-	215
F. Audits	145	-		-	-	145
G. Project Mgmt./ Support	-	2,947		1,468	382	4,797
H. Contingencies	<u>991</u>	<u>143</u>		<u>73</u>	<u>13</u>	<u>1,220</u>
TOTAL	<u>18,750</u>	<u>4,252</u>		<u>1,603</u>	<u>395</u>	<u>25,000</u>

ANNEX II
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 I.

Article B: General Covenants.

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

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

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

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

Section B.3. Utilization of Goods and Services.

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

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

Section B.4. Taxation.

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

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

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

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

(b) Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

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

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

(a) That the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement; and

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

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

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

Article C: Procurement Provisions.

Section C.1. Special Rules.

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

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

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

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

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

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

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

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

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

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

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

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

(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 on a non-U.S. flag carrier if a U.S. flag carrier is available (in accordance with criteria which may be contained in Project Implementation Letters) without prior written approval of A.I.D.; or

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

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

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

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

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

Section C.7. Insurance.

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

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

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

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

Section C.8. U.S. Government-Owned Excess Property. The Grantee agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Grant may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

Section D.1. Termination. Either Party may terminate this Agreement by giving the other Party 30 days written notice. Termination

of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods Annex II

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financed under the Grant be transferred to A.I.D. if the goods are from a source outside Grantee's country, are in a deliverable state and have not been off-loaded in ports of entry of Grantee's country.

Section D.2. Refunds.

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

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under the Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty (60) 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 refunds under subsection (a) or (b), or (2) any refund to A.I.D. from a contractor, suppliers, bank or other third party with respect to goods or services financed under the Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the Project, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

(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

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such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Grantee.

Section D.3. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

Section D.4. Assignment. The Grantee agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract which A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.

Rural Water and Sanitation

Project No. 492-0401

	FY 85	FY 86
Appropriation No.	72-115/61021	72-1161021
BPC	QDA586-27492-CG13	QDAA86-27492-CG13
RESCTL NO.	PG03031	PG03032
Amount	\$9,619,993	\$58,092